ACN 166 064 875

Level 27, 420 George Street
Sydney NSW 2000 Australia

GPO Box 3965
Sydney NSW 2001 Australia

T 61 2 8243 0888

F 61 2 8243 0880

E pmcapital@pmcapital.com.au

www.pmcapital.com.au

1 May 2017

ASX Limited
Level 4, 20 Bridge Street
Sydney NSW 2000

By: E-lodgement

Re: Video Update - PM Capital Research trip

A video update from PM Capital's investment team detailing their insights from a recent research trip to the United Kingdom, Spain and Ireland can be accessed here:

http://www.pmcapital.com.au/insight/research-trip-update-investment-team-united-kingdom.

TRANSCRIPT STARTS (Research Trip Update by Paul Moore and John Whelan, 1 May 2017)

Paul Moore Welcome to our March quarterly video. This quarter, we thought it would be worthwhile just giving a quick synopsis of our most recent research trip to Europe. I'm Paul Moore. I'm the Chief Investment Officer and Global Portfolio Manager and I'm joined by John Whelan, who's responsible for a number of our European investments.

What really stood out to me was how dramatic sentiment and activity levels have changed over the last 12 to 18 months in Europe. And I think, John, it might be worthwhile just giving a few anecdotes that really highlight just what's going on in Ireland and Spain, particularly at the moment.

John Whelan In Spain there's been a huge change in sentiment. Retail sales are growing mid-single digits and property prices are on the rise. Hotels are booming because there's a tourism boom in Spain with a record number of tourists last year. And with regard to Ireland, the big thing that stood out was employment growth. Employment has gone from 15% to 6.5%, and probably will go on to 5% this year. And also, regarding economic activity, airport arrivals are up 10%. Property prices are rising 8 to 10%. So, a major change from a few years ago.

Paul Moore And again, what stood out to me was in Dublin, two or three years ago it was like walking through a ghost town. This time there was cranes everywhere. Then when we went to

Spain, again activity levels were quite strong, but what was most noticeable to me, or most interesting to me, was the 2%, 30 year fixed-rate mortgages. You Cairn imagine what would happen in Sydney with property prices if we had access to 30 year, 2% fixed-rate loans. So, what it tells me is that once the banks start loosening their grip in terms of lending standards, that you're going to have that pent-up demand released into the housing market, and it's going to be very positive. Our banks, CaixaBank, the CBA equivalent in Spain, and Neinor Homes, who is a home builder.

You also mentioned about the tourism and the increase in room rates. Hispania that we own will see very positive impact. Hispania owns a lot of hotels. It just highlights that the earnings gains are now starting to come through. And therefore, we think those investments are now emerging into the middle part of their investment thesis and will still provide quite attractive returns. And I guess in terms of Dublin and the impact on the portfolio, one of our big investments is Cairn, which is a home builder.

So, you might just want to go through the basic tenets of how that investment came about and where we stand today. If you look at our Las Vegas investments back post-GFC, we found the best way to play that belief or thesis of recovering house prices was through Howard Hughes because it owned all the spare land in Las Vegas. And we were fortunate enough to come across Cairn who was able to buy from the banks a huge land bank in Dublin. So, maybe just give us a quick synopsis of that.

John Whelan So, Cairn Homes is an Irish residential developer, and it really came about from a thesis on Howard Hughes. We were looking for something that was a similar play on land values recovering in Ireland. House prices in Ireland fell 40%, land prices 80%, construction and new homes fell 90%. So, Cairn had the mandate to buy a ten-year land bank at rock bottom prices. How it's playing out is over the last 20 months or so it's bought the ten-year land bank. We believe that land prices have probably doubled from there. It's playing out probably better than expected, and management confirmed that on our visit. So, with regards to the demand or houses in Ireland, it's better than expected given employment growth.

Paul Moore And I guess what was obvious to me was that there's a shortage of high-quality, multi-family apartments in Dublin. And so it looks like that market is going to play out just like what we've seen in Sydney over the last few years. So, it should mean that even though the stock price has done well in the short term, we still think it's only half way to where it's eventually going to get.

John Whelan The original thesis when we bought it two years ago that land prices will double and that's from a severely depressed level which would mean that share price could go to €2. So, even though it's up 50%, it could easily go another 50% from here.

Paul Moore And in terms of Spain, our key investment there is CaixaBank, which is a CBA equivalent. Basically, playing on the return to normalcy of the macro economy interest rates and as a result, the ability of the bank to pay out high dividends. All our observations in Spain, our meetings with the banks, with the property companies, all supported the fact that activity levels are actually a lot better than people realise. So, I think if anything, we may underestimate the sort of earnings recovery that we're going to get in a company like CaixaBank.

Now in terms of new opportunities, which we're also looking for on our trip, a number of different stocks did come on to our radar screen but we don't like to talk about any new investment until we've actually bought a full position in the portfolio. So, you're just going to have to wait to a later date.

One stock that we did look at but we've put on the shelf at the moment was Rolls Royce. Really interesting story. Traffic growth in the industry has been in a long-term - 20, 30 plus year - secular growth story. So, you think that will be a great industry to make money in, but the thing that stood out about Rolls Royce to me was the fact that despite that secular growth, over 20 years they haven't produced a cent of free cash flow and they have no equity on their balance sheet. So, there are a number of things going on at Rolls Royce at the moment which we think are very, very attractive, but the fact that it doesn't produce any free cash flow and it'll probably have to rebuild its balance sheet. The valuation isn't at a point that allows for those factors. We've put it on the shelf, and we'll see if it comes back to a price that might meet our criteria.

So, that's a quick synopsis of the research trip. In terms of our outlook for markets, there's been no change. We think market returns are going to be subdued. It's very much going to depend on earnings growth and dividend yield, and most of our investments are structured around that basic proposition. As we always highlight, we think, in particular, in the environment going forward that you have to be very, very selective about the investments you make and the stocks that you have in your portfolio. Because we think general broad market exposure now will not meet the long-term return objectives that most investors have.

TRANSCRIPT ENDS

Yours faithfully
PM Capital Global Opportunities Fund Limited

Ben Skilbeck
Director