

Prime Value Cash Plus Fund

Fund Update – January 2018



- The Fund had a good month with markets continuing the good form of late 2017
- We continue to be defensive in our portfolio investment allocations and vigilant to any change in the low risk-premium currently priced into markets
- We expect the Fund to continue to perform well over the next 12 months

	Gross Return*	Net Return*	Net Return including Franking Credits**	RBA Cash Rate
Since inception (p.a.)	4.4%	3.7%	4.4%	1.9%
3 Years (p.a.)	4.5%	3.8%	4.6%	1.8%
2 Years (p.a.)	5.4%	4.8%	5.7%	1.6%
1 year	4.6%	4.0%	4.9%	1.5%
3 Months	0.9%	0.7%	1.0%	0.4%
1 Month	0.4%	0.3%	0.3%	0.1%

* Performance figures have been calculated in accordance with the Financial Services Council (FSC) standards. No allowance has been made for taxation. Performance assumes the reinvestment of income distributions. Past performance is not necessarily an indicator of future performance. Net returns are calculated after management fees. Gross returns are calculated before management fees.

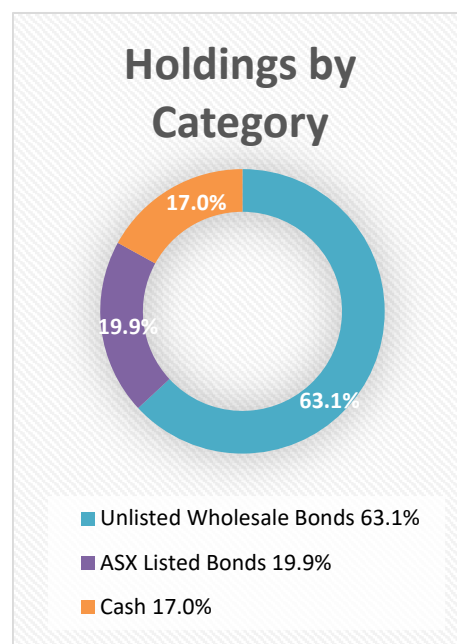
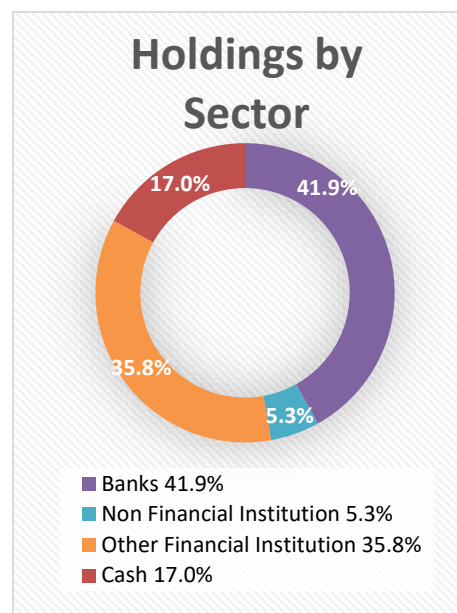
**Returns grossed up for Franking Credits are estimates.

Top five holdings	Sector	Category
AMP Limited	Other Fin Inst.	Unlisted Wholesale Bonds
Bank of Queensland	Banks	Unlisted Wholesale Bonds
IAG Note	Other Fin Inst.	Unlisted Wholesale Bonds
PPP (Government Facility)	Non Fin Inst.	Unlisted Wholesale Bonds
ME Bank	Banks	Unlisted Wholesale Bonds

The top five holdings make up approximately 46.6% of the portfolio.

Feature	Fund Facts
APIR Code	PVA0009AU
Portfolio Manager	Matthew Lemke
Investment Objective	To provide regular income with low risk exposure. The Fund targets a return to investors in excess of the Reserve Bank of Australia's (RBA) cash rate with minimal risk of capital loss in the medium term.
Benchmark	RBA Cash Rate
Inception Date	3 June 2014
Interest Rate Reset Duration	Approx. 0.41 years
Distribution	Quarterly
Recommended Investment Period	1 + year
Minimum Investment	\$50,000
Indirect Cost Ratio (ICR)	0.60% ¹ p.a.
Issue price	\$1.0331
Withdrawal Price	\$1.0311
Distribution (31/12/17)	\$0.0075

¹ Unless otherwise stated, all fees quoted are inclusive of GST and less the relevant RITC



Fund review and strategy

The Fund had a positive month as most markets – including global debt and credit markets, equities, emerging markets, currencies, and commodities (base metals, crude oil) - broadly continued their strong performance of late 2017.

Australia's December quarter CPI inflation data, released at the end of January, showed no material inflation pressures. Low inflation is also a feature in the US and Europe. With current annual inflation at 1.9%, below the lower-end of the RBA's target 2-3% band, it is unlikely the RBA will hike rates for a considerable period. However, we expect the RBA to maintain its "hawkish" posture on rates to quell price rises in the property market. The market is pricing in an 80% chance of a rate hike this year. Our interest in the RBA's monetary policy is two-fold:

- the RBA official cash rate is the Fund's benchmark rate of return and we aim to pay investors a reasonable margin above the official rate
- the RBA's monetary policy management provides insight into how the RBA sees the state of the Australian economy and inflation, factors which are relevant to Fund performance.

The US Federal Reserve left rates unchanged in January after hiking rates by 25bp hike at the December meeting. We expect the new Fed chair Jerome Powell (who takes over from Janet Yellen on 3 February) to endorse further rate hikes in 2018. This factor, plus rising US economic growth forecasts, have pressured bond yields higher, which has flowed across to Australian bonds. This dynamic helps the Fund given its low weighted-average interest rate duration (in keeping with the Fund's return benchmark). Investors therefore benefit from any rise in Australian interest rates.

We monitor a range of factors that help us understand and manage market risk in the Fund portfolio:

market-based risk factors - including equity markets, volatility measures in various markets, credit default swap levels, and sovereign and corporate credit spreads

economic data releases in Australia and globally, rating agency commentaries, and central bank activity and announcements.

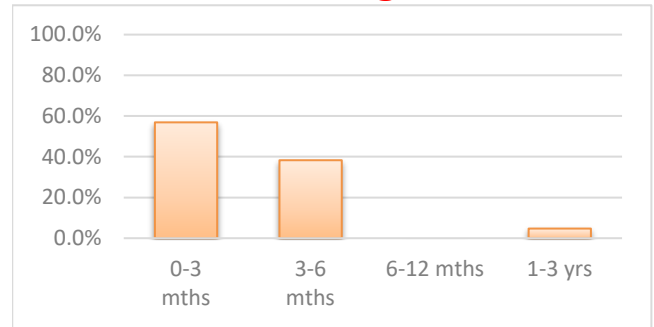
These factors currently justify the low risk-premium being priced into markets. This risk-premium is low by historical comparisons, but we are monitoring carefully for any change in market sentiment. Markets can turn quickly for unexpected reasons and it is important not to be 'lulled' into false security. We are very vigilant to markets, and manage our portfolio defensively to earn a reasonable return for investors while being able to return capital quickly upon request.

No major strategic portfolio adjustments or initiatives were implemented in January. The current portfolio is robust and appropriate in the current market. Our overall strategy is to retain a strong cash balance, a short interest rate reset frequency, a short credit (maturity) duration, a good diversity of assets in the portfolio with emphasis on those issued by major domestic banks/ financial institutions, and a low percentage holding in ASX-listed stocks to mitigate the higher volatility and lower liquidity generally associated with the listed market.

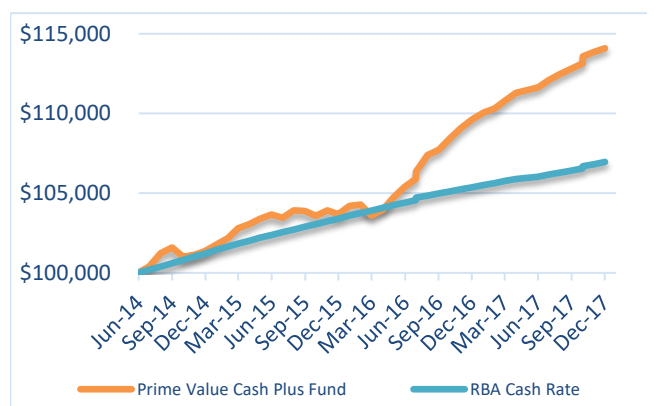
We expect the Fund to perform well throughout 2018.

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Interest Rate Reset Management



The Fund's portfolio weighted average interest rate reset duration is approximately 0.41 years. The majority of interest rates are reset every quarter. Securities with interest rates reset every quarter are not exposed to the risk of interest rate increases, unlike fixed rate investments.



This graph shows how \$100,000 invested at the Fund's inception has increased to \$114,400 (net of fees). This compares with the return of the RBA cash rate, where a \$100,000 investment would have increased to \$107,100 over the same period.

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