

Prime Value Cash Plus Fund

Fund Update – February 2018



- The Fund performed well in February despite the significant downturn in US and global equity markets at the start of the month – markets are now far more ‘edgy’
- A few of the risk indicators that we watch have pushed higher and we continue to be highly defensive in our Fund management to protect investor capital
- We expect the Fund to continue to perform well in 2018

	Gross Return*	Net Return*	Net Return including Franking Credits**	RBA Cash Rate
Since inception (p.a.)	4.3%	3.7%	4.3%	1.9%
3 Years (p.a.)	4.3%	3.7%	4.4%	1.7%
2 Years (p.a.)	5.8%	5.1%	6.1%	1.6%
1 year	4.4%	3.8%	4.8%	1.5%
3 Months	0.7%	0.6%	0.8%	0.4%
1 Month	0.1%	0.1%	0.1%	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.

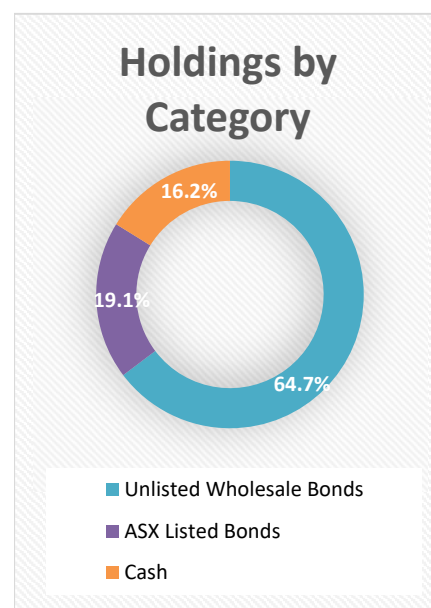
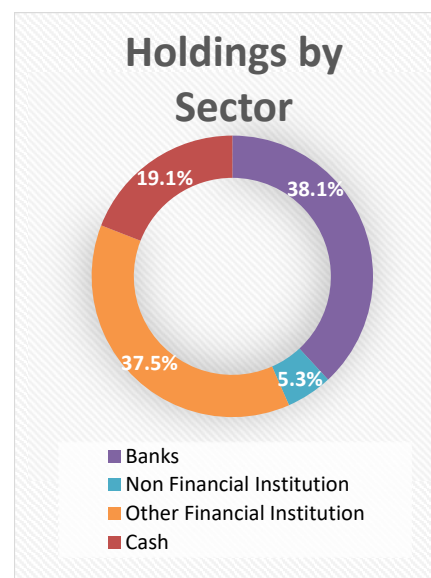
**Returns grossed up for Franking Credits are estimates.

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
AAI Note	Other Fin Inst.	Unlisted Wholesale Bonds
PPP (Government Facility)	Non Fin Inst.	Unlisted Wholesale Bonds

The top five holdings make up approximately 46.9% 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	\$1.0339
Withdrawal Price	\$1.0319
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 performed well in February despite the significant downturn in US and global equity markets, and ensuing market volatility, early in the month. The reason for equity sell-off was the coincidence of two factors in the US market:

- US equity markets have for some years registered successive all-time highs which has meant *risk premia* in equities, credit and several other markets are now at extremely low levels
- 10-year US Treasury bond yields (the market bellwether), that had fallen to 1.5% in July 2016, are now rising. Higher rates normally act as a brake on equity markets. The first part of the rise (to 2.0%) after President Trump's election in November 2016 was ignored by the equity market, as rates were rising from all-time lows. However, this year the 10-year bond yield has pushed up to 2.85%, overtaking Australian 10-year yields, and indicators point to higher levels as inflation forecasts are adjusted up. This is due to three factors: higher predictions for the forward-year US budget deficit (after the corporate tax cuts passed both Houses), recent Trump protectionist moves, and the prospect of synchronised growth in the major world economies. It is this *second* move higher in US bond yields, and the chance for even higher bond yields, that is being noticed by equity markets and causing concern.

There is now a generalised market concern around what can be described as the "*equity/bond valuation conundrum*". This concern centres around two issues:

- whether low interest rates will continue to support the equity market, which has been the case since the post-GFC period, and
- whether higher rates will 'flush out' asset bubbles and precipitate a crisis.

A few of the risk indicators that we watch have pushed higher, although these indicators have settled back somewhat towards the end of the month as equity markets recovered.

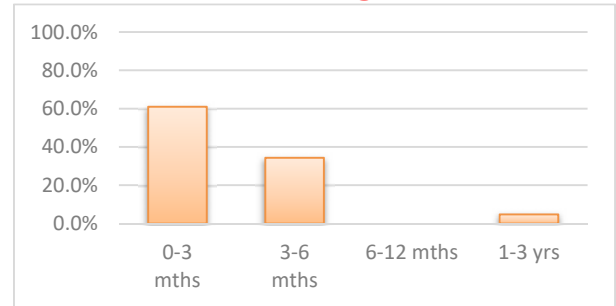
There are markets factors that will mitigate any move higher in bond yields in the US and we do not envisage a large inflation outbreak due to US dollar strength, while expectation for further rate hikes by the US Fed should curb inflation expectations. We see quite different dynamics in Australia as the wage inflation pulse is slower than the US and Australian 10-year bond yields are now below their US counterparts (which is highly unusual from an historical perspective). This has pushed the Australian dollar down to USD 0.7760.

We remain highly vigilant, especially now that markets have been caught by surprise in the early February equity market sell-off, and we definitely expect market conditions to be more 'edgy' for the next few months as the "*equity/bond valuation conundrum*" plays out.

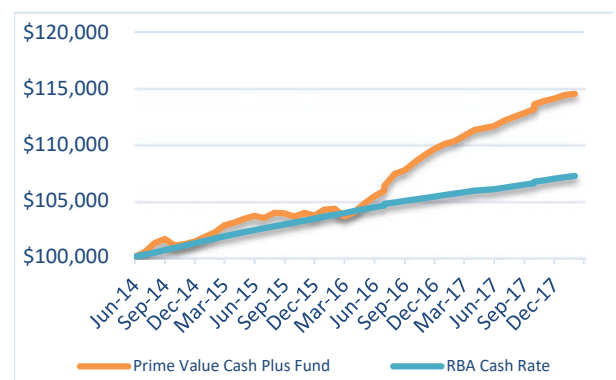
The portfolio strategy continues to be highly defensive to protect investor capital. In addition to a healthy cash balance, we only hold securities that are safe and issued by creditworthy institutions, that are redeemable in the near-term (average credit duration of under 1.8 years), that are tradeable ("liquid") so we can exit them quickly if we wish, and that have a short (3-4 month) interest rate reset so we can participate in higher rates.

We expect the Fund to continue to perform well in 2018.

Interest Rate Reset Management



The Fund's portfolio weighted average interest rate reset duration is approximately 0.39 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 \$114,500 (net of fees). This compares with the return of the RBA cash rate, where a \$100,000 investment would have increased to \$107,200 over the same period.

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