

Prime Value Cash Plus Fund

Fund Update – July 2019



By Matthew Lemke, Fund Manager

- The Fund recorded an above-target return in July, it's 5th consecutive above-target return
- The two RBA rate cuts do not indicate a looming recession
- The further US tariffs on Chinese goods is a concern for global growth and market risk
- The Fund will continue to perform well throughout 2019 and 2020.

	Gross Return*	Net Return*	Net Return including Franking Credits**	RBA Cash Rate
Since inception (p.a.)	4.3%	3.6%	4.2%	1.8%
5 Years (p.a.)	4.4%	3.5%	4.4%	1.7%
3 Years (p.a.)	4.8%	4.2%	4.9%	1.5%
1 year	4.8%	4.1%	4.7%	1.4%
3 Months	1.6%	1.4%	1.6%	0.3%
1 Month	0.4%	0.4%	0.4%	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.

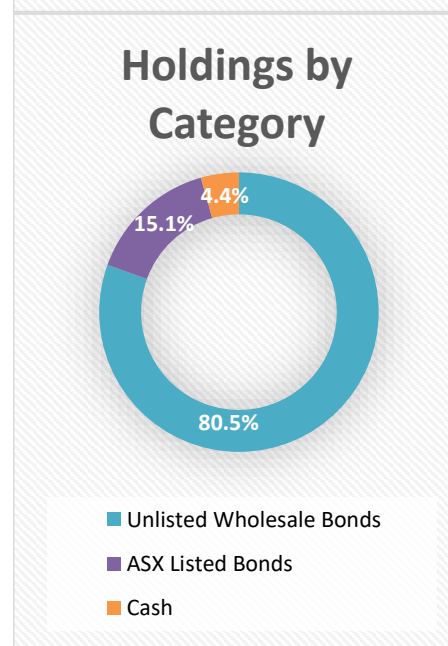
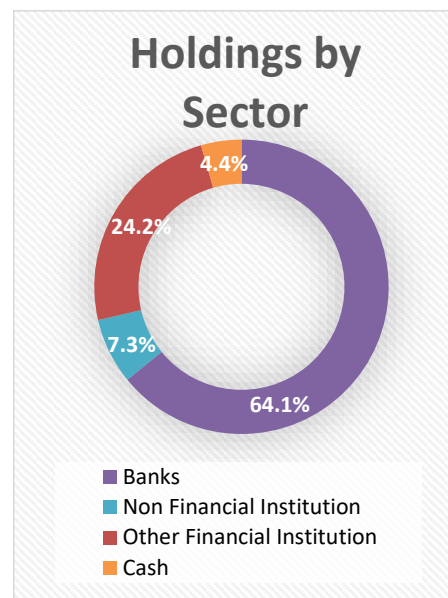
**Returns grossed up for Franking Credits are estimates.

Major Holdings	Sector	Category
NAB	Banks	Wholesale Notes
Westpac	Banks	Wholesale Notes
CBA	Banks	Wholesale Notes
ANZ	Banks	Wholesale Notes
Bank of Queensland	Banks	Wholesale Notes

The top five holdings make up approximately 34.2% 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. 0.40 years
Distributions	Quarterly
Recommended Investment Period	1 + year
Minimum Investment	\$50,000
Indirect Cost Ratio (ICR)	0.60% ¹ p.a.
Issue price	\$1.0314
Withdrawal Price	\$1.0294
Distribution (30/06/19)	\$0.0111

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



Fund review and strategy

The Fund had a strong month and its return for July was above-target. This was the result of a combination of strong credit and equity markets. The RBA delivered its second consecutive rate cut, taking the official cash rate to an all-time low of 1%.

However, the commentary with the rate cuts shows the RBA's intention is to reduce the unemployment rate, raise wages growth, in turn lifting inflation back into the 2-3% band. The RBA rate cuts, in other words, are not due to any view that Australia is heading towards recession.

The more important dynamic for markets at the moment is the deterioration in the US/ China trade situation, exacerbated by President Trump recently imposing a 10% tariff on another \$300 billion of imports from China. This tariff could well cause China to retaliate with tariffs on US exports to China. Trump's announcement coincided with the 25bp rate cut by the Fed, its first rate cut in 10 years. Clearly, Trump understands that trade tariffs hurt overall economic growth, hence his call to the Fed to cut rates even further.

During the month, APRA which regulates domestic banks announced capital increases for the four major banks in Australia via Tier 2 capital which is capital that sits below pure equity. This announcement put pressure on credit spreads for existing Tier 2 securities in the market, some of which we own in the Fund's portfolio. However, markets settled down once further analysis of the APRA announcement showed a much less dramatic impact. The new capital must be raised by 2023 giving the four major banks a lot of time to issue the Tier 2 securities. Analysis shows the market can absorb the new issuance. The new capital will improve banks' creditworthiness, which will help credit spreads in the banking sector and specifically the bank securities in the Fund's portfolio.

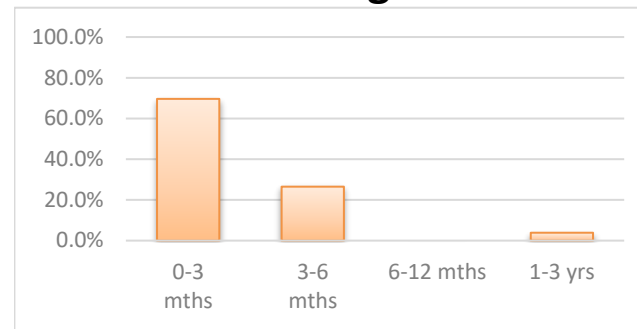
Overall, markets are relatively benign. However we are very alert to the US/ China trade situation and flow-on effects to Australia. We see the recent US tariffs on Chinese goods as adding an element of significant uncertainty and volatility to markets.

We are also very mindful that the very low interest rates in Australia, Europe and the US are drawing money into equity markets, not so much due to an investment preference for equities, more so because of the lack of alternatives to earn an acceptable return. Equity markets could potentially unravel the rallies which moved them to successive all-time highs in recent months.

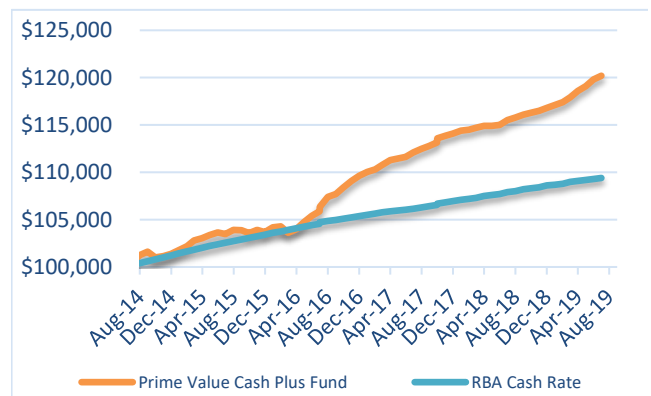
We continue to manage the Fund very defensively. We have been earning above-target returns for the past 5 months, which is very pleasing. We continue to carefully monitor markets and individual securities in the portfolio.

We fully expect the Fund to perform well over the next year and into 2020.

Interest Rate Reset Management



The Fund's portfolio weighted average interest rate reset duration is approximately 0.40 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 \$120,200 (net of fees). This compares with the return of the RBA cash rate, where a \$100,000 investment would have increased to \$109,400 over the same period.

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