

Prime Value Imputation Fund

Fund Update – December 2018

- Global share markets sold off in December, led by the US market. The Australian share market performed extremely well in that context, falling by 0.2%. The mining and defensive sectors were significant contributors
- The Fund produced a strong distribution return of 4.9% including franking credit for the 1st Half of FY19
- We are selectively investing given the market opportunities, deploying our higher than normal cash holding

| | Total Return* | Growth Return* | Distribution Return* | Total Return including Franking Credits** | S&P/ASX 300 Accumulation Index |
|------------------------|---------------|----------------|----------------------|---|--------------------------------|
| Since inception (p.a.) | 10.1% | 5.0% | 5.1% | 12.2% | 7.6% |
| 10 Years (p.a.) | 7.4% | 3.2% | 4.2% | 9.6% | 8.9% |
| 5 Years (p.a.) | 3.7% | (0.3%) | 4.0% | 5.7% | 5.6% |
| 3 Years (p.a.) | 3.2% | (0.8%) | 4.1% | 5.2% | 6.7% |
| 1 Year | (4.5%) | (9.3%) | 4.8% | (2.0%) | (3.1%) |
| 3 Months | (9.3%) | (11.8%) | 2.5% | (8.2%) | (8.4%) |
| 1 Month | (2.0%) | (4.5%) | 2.5% | (0.8%) | (0.2%) |

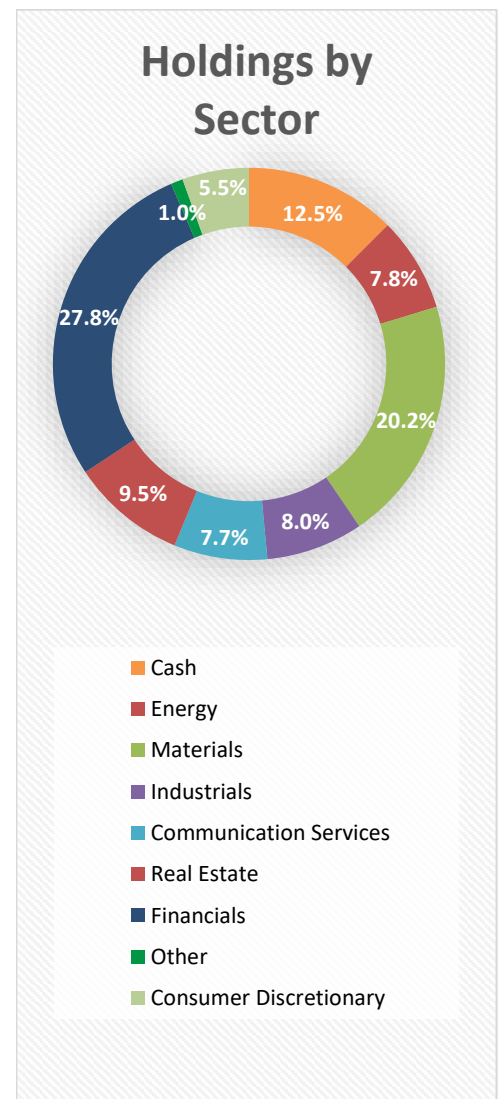
* Fund returns are calculated net of management fees, assuming all distributions are re-invested. Performance figures have been calculated in accordance with the Financial Services Council (FSC) standards. The returns are calculated before performance fees which are charged against individual accounts. The returns exclude the benefits of imputation credits. Past performance is not necessarily an indicator of future performance.

** Returns grossed up for franking credits are estimates.

| Top five holdings | Sector |
|-------------------|------------|
| BHP | Materials |
| Commonwealth Bank | Financials |
| Macquarie Group | Financials |
| Westpac Bank | Financials |
| ANZ Bank | Financials |

The top five holdings make up approximately 30.2% of the portfolio.

| Feature | Fund facts |
|-------------------------------|---|
| Portfolio Manager | Leanne Pan |
| Investment objective | To provide regular tax-effective income, combined with competitive capital growth over the medium to long-term, by managing a portfolio of assets comprised mainly of Australian equities listed on any recognised Australian stock exchange. |
| Benchmark | S&P / ASX 300 Accumulation Index |
| Inception Date | 20 December 2001 |
| Cash | 0 - 30% |
| Distributions | Quarterly |
| Recommended investment period | 3 + years |

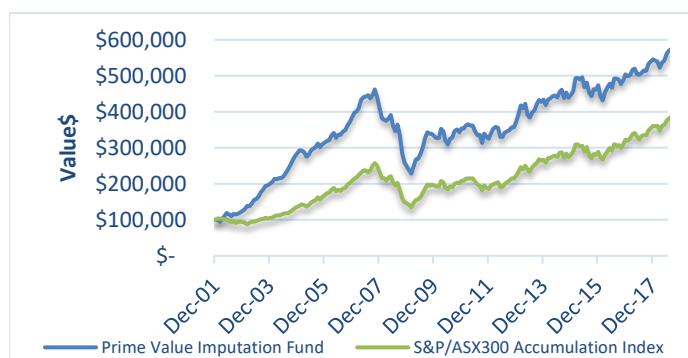


Market review

Global markets fell sharply in December, led by the US share market. Investors had to deal with a number of events during the month including the continued US China trade war and higher US Interest rates. For context, since the US market peaked in September, investors appeared to have priced in every conceivable macro risk. Australia was the best performing major market, falling by a relatively small 0.2%. Global bonds rose significantly, driven primarily by a fall in inflation expectations. The Australian Dollar fell to \$0.7040 against the US Dollar. Oil declined again, while gold continued to rise as investors sought safe havens.

Within Australian stock sectors, Materials (+5.3%), Health Care (+2.9%) and Utilities (+2.9%) outperformed the most, while Telcos (-5.0%), IT (-4.0%) and Financials (-3.1%) underperformed the most.

With the recent pull back, the Australian share market is trading below its long term average PE ratio of 14.5x and yielding 6% (gross). Better valuations and fundamentals that are still robust point toward investment opportunities opening up for longer term investors. Earnings and economies will still expand in 2019, just not at 2018's pace. Perhaps surprising to some, key fundamentals turned quite bullish for risk assets amid the fourth-quarter stock market volatility. In pricing slower growth, the yield on the 10-year US Treasury bond fell from 3.25% to 2.65% and the US Federal Reserve became more dovish, both of which are supportive of higher valuations.



This graph shows how \$100,000 invested at the Fund's inception has increased to \$521,500 (net of fees excluding performance fees). This compares very favourably with the return of the market, where a \$100,000 investment would have increased to \$349,900 over the same period. The returns exclude the benefits of imputation credits.

| | Direct Investment (Class A) | Platform Investment (Class B) |
|----------------------------|-----------------------------|-------------------------------|
| APIR code | PVA0002AU | PVA0022AU |
| Minimum Investment | \$20,000 | N/A |
| Issue price | \$ 2.3358 | \$ 2.3358 |
| Withdrawal price | \$ 2.3182 | \$ 2.3182 |
| Distribution (31/12/2018) | \$ 0.0600 | \$ 0.0612 |
| Indirect Cost Ratio (ICR)* | 1.435% p.a. | 1.23% p.a. |
| Performance fee** | 20.5% | 20.5% |

* Unless otherwise stated, all fees quoted are inclusive of GST and the relevant RITC
 ** of performance (net of management fees and administration costs) above the agreed benchmark, subject to positive performance and a high water mark

The information contained in this Fund Update is general in nature and has no regard to the specific investment objectives, financial or particular needs of any specific recipient. It is not intended to constitute investment advice or a personal securities recommendation. This document is not a Product Disclosure Statement (PDS) or an offer of units, and contains a brief overview of the investment only. Any prospective investor wishing to make an investment in the Prime Value Imputation Fund must obtain and read the PDS dated September 2017 (particularly the risk factors discussed) and complete an application form. Neither Prime Value Asset Management Limited nor its associates or directors, nor any other person, guarantees the success of the Prime Value Imputation Fund, the repayment of capital or any particular rate of capital or income return, or makes any representation in relation to the personal taxation consequences of any investor's investment.

Fund review and strategy

Share markets ended 2018 on a pessimistic note, weighted down by trade war fear, interest rate fear, geopolitical fear, housing slowdown fear and so forth. It has been a tough quarter for nearly all listed asset classes. The Fund returned -2% for the month. Key absolute contributors to fund performance in December were **BHP** (+11.5%, but our full participation in the rally was reduced by our take-up of the company buyback), **Viva Energy REIT** (+5.5%, defensive characteristics). **Adelaide Brighton** (-17.5%) was the main detractor for the month as company issued an earning downgrade due to delayed timing of infrastructure projects. Our small holding in **GTN** (-46.6%, slower booking rate) has also hurt us.

During the quarter we participated in the company buybacks of Rio & BHP. We consider them attractive means of generating strong after tax returns for our investors, even though it is at the expense of "headline" return numbers. We estimate the "headline" return penalty is about 40 basis points. However this has enabled us to pay a "special" distribution of 4 cents in addition to our normal 2 cents per unit for the Quarter, making a strong distribution return for this Half of 4.9% including franking.

Going into the New Year, we remain focussed on company fundamentals, try to discern reality from perception (market noises) and to construct a total return approach portfolio.

| Top Contributors (Absolute) | Sector |
|-----------------------------|-------------|
| BHP | Materials |
| Viva Energy REIT | Real Estate |
| Newcrest | Materials |

| Top Detractors (Absolute) | Sector |
|---------------------------|------------------------|
| Adelaide Brighton | Materials |
| ANZ | Financials |
| GTN Ltd | Communication Services |

| Platforms |
|--|
| Ausmaq, Beacon, BT Wrap, First Wrap, Hub24, Netwealth, Symetry, Wealthtrac |

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