

# Prime Value Imputation Fund

## Fund Update – March 2018



- “Big picture factors”, particularly concerns about tit-a-tat trade restrictions between China and the US, drove share market performances in March. The Australian ASX300 Accumulation Index fell 3.7%.
- While this fall seems significant in light of the recent long period of benign share market volatility, it is within the norms of market ebbs and flows.
- The Fund’s zero weight in the strong performing (but low yielding) Health Care sector detracted from performance.

	Total Return*	Growth Return*	Distribution Return*	Total Return including Franking Credits**	S&P/ASX 300 Accumulation Index
Since inception (p.a.)	<b>10.7%</b>	5.5%	5.1%	<b>12.7%</b>	7.9%
10 Years (p.a.)	<b>3.4%</b>	(0.8%)	4.1%	<b>5.5%</b>	5.2%
5 Years (p.a.)	<b>5.0%</b>	1.2%	3.8%	<b>6.9%</b>	7.6%
3 Years (p.a.)	<b>1.9%</b>	(1.6%)	3.5%	<b>3.7%</b>	3.9%
1 Year	<b>1.3%</b>	(2.1%)	3.3%	<b>3.0%</b>	2.9%
3 Months	<b>(4.2%)</b>	(5.0%)	0.8%	<b>(3.8%)</b>	(3.8%)
1 Month	<b>(3.1%)</b>	(3.9%)	0.8%	<b>(2.7%)</b>	(3.7%)

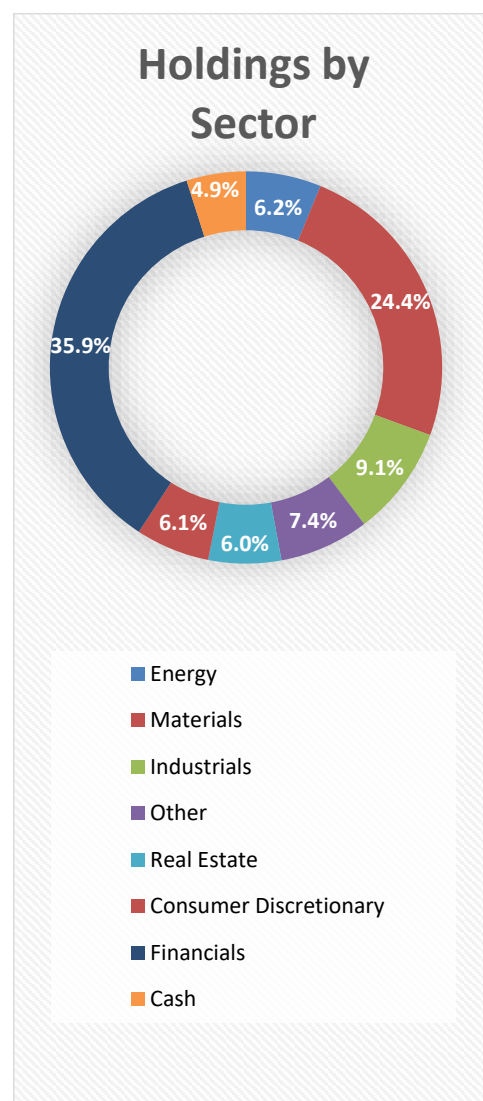
\* Fund returns are calculated net of management fees, assuming all distributions are re-invested. Performance figures have been calculated in accordance with the Financial Services Council (FSC) standards. The returns are calculated before performance fees which are charged against individual accounts. 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
Westpac Bank	Financials
Macquarie Group	Financials
ANZ Banking	Financials

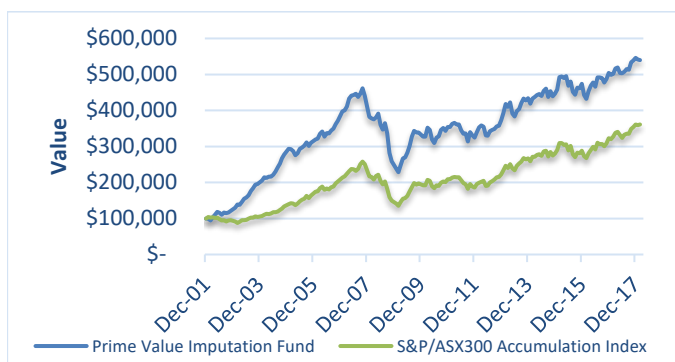
The top five holdings make up approximately 28.8% of the portfolio.

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
Research Rating	Lonsec – Investment Grade



## Market review

Equity markets declined during the back-end of March, largely driven by fears of a global trade war. This followed the US President's decision to impose significant new tariffs on steel, aluminium and Chinese imports. The Australian share market underperformed (down -3.7%), weighed down by the performance of the banks amid new misconduct allegations at the Banking Royal Commission hearings. The materials sector also underperformed, reflecting a large decline in bulk commodity prices (namely iron ore and coal). Higher beta sectors such as financials, materials and IT also drove the decline in global equity markets. The Australian dollar fell 1.2 cents to USD 0.7670 reflecting the decline in bulk commodity prices, while the yield spread between Australian and US bonds remained negative. Oil prices rose, up 2.8% to US\$67.64 a barrel (Brent), largely driven by a surprise drop in US inventories. The only sector to produce a positive return during the month was the REITs (+0.1%), helped by the decline in global bond yields. Another of the bond proxy sectors utilities, also performed well in a relative sense (-0.8%). The major laggard was telecommunications (-6.2%), followed by financials (-5.8%) and materials (-4.2%). Consistent with FY18 market performance-to-date, small-caps outperformed mid-caps (-2.9%), large-caps (-4.1%) and mega-caps (-4.7%).



This graph shows how \$100,000 invested at the Fund's inception has increased to \$523,000 (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 \$347,300 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	\$ 2.4426	\$ 2.4438
Withdrawal price	\$ 2.4242	\$ 2.4252
Distribution (31/12/2017)	\$ 0.0200	\$ 0.0213
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

## Fund review and strategy

The Fund fell -3.1% for March in what was a volatile month. In absolute terms, the major contributors to performance were **Event Hospitality and Entertainment, Bingo Industries** and **Sydney Airport**. The detractors were **BHP, Westpac** and **Commonwealth Bank**. Overall, sector allocation was neutral in relative terms.

Bill Shorten's proposal on the scale back of imputation rebate will have some implication on how we value stocks. As the Fund name suggests, we value franking credits and the benefit they offer to our investors. Since inception, around 2% has been added each year to investor returns from franking credits. Any rebate scale back to a segment of investors diminishes the value of franking. Our holdings in some of the resources names are partly predicated on their strong free cashflow plus their large franking balances, which can make capital management very attractive in a tax effective way. Perhaps this potential change will speed up the distribution of franking balances?! We wait and see. In the meantime, we will monitor the debate and adjust our strategies accordingly.

The current "protectionist push" from the US has the share market on heightened alert. Volatility is expected to continue. Five banks will report their half yearly financial results in April in the midst of the Banking Royal Commission. The earnings growth is likely to be flat, but we expect dividends to be maintained.

Top Contributors (Absolute)	Sector for the portfolio
Event Hospitality and Entertainment	Consumers Disc
Bingo Industries	Industrials
Sydney Airport	Industrials

Top Detractors (Absolute)	Sector
BHP	Materials
Westpac Bank	Financials
Commonwealth Bank	Financials

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

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