

# Prime Value Growth Fund

## Fund Update – July 2018



- The Australian share market underperformed global peers in July, with the US and European equity markets rising strongly while Emerging markets lagged
- A good start to the financial year with the Fund up by 1.9% in July
- Stock-specific company events were a key influence on performance

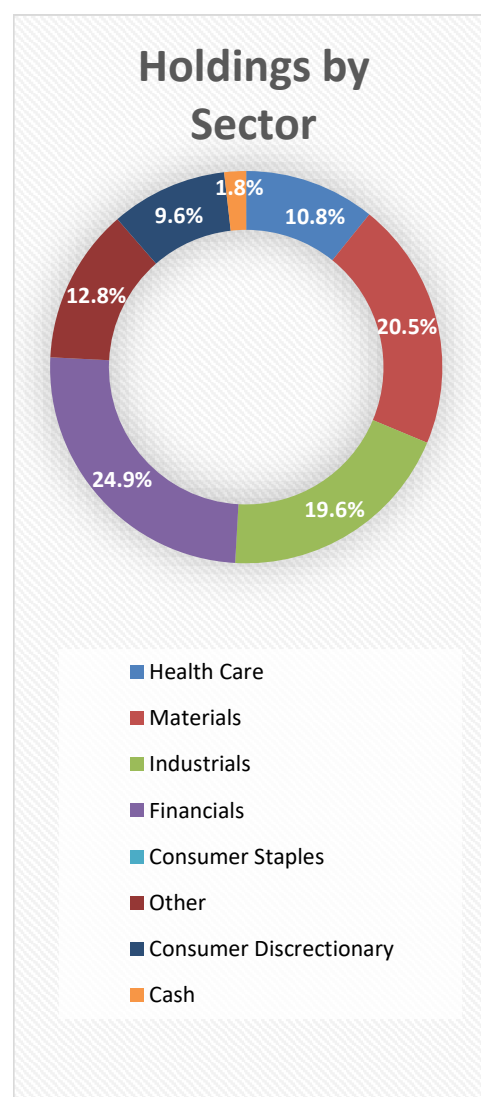
	Total Return*	S&P/ASX 300 Accumulation Index	Value Add
Since Inception (p.a.)	<b>11.9%</b>	8.4%	3.5%
5 Years (p.a.)	<b>6.5%</b>	9.1%	(2.6%)
3 Years (p.a.)	<b>5.2%</b>	8.1%	(2.9%)
1 Year	<b>15.4%</b>	14.7%	0.7%
3 Months	<b>7.2%</b>	5.8%	1.4%
1 Month	<b>1.9%</b>	1.3%	0.6%

\*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.

Top five holdings	Sector
BHP	Materials
CSL	Health Care
Westpac	Financials
ANZ	Financials
Orora	Materials

The top five holdings make up approximately 35.2% of the portfolio

Feature	Fund facts
Portfolio Manager	ST Wong
Investment Objective	To provide superior medium to long term capital growth, with some income, by managing a portfolio of predominantly Australian equities listed on any recognised Australian Stock Exchange.
Benchmark	S&P/ ASX 300 Accumulation Index
Inception Date	10 April 1998
Cash	0 - 30%
Distributions	Half-yearly
Recommended Investment Period	3 + years



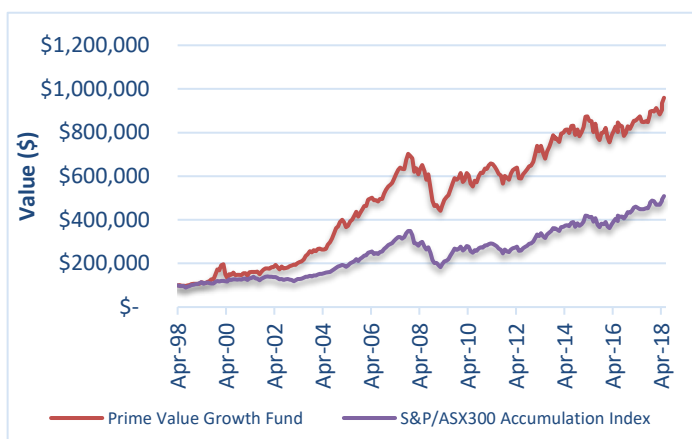
## Market review

Equity markets had a strong start to the financial year. The US market rose 3.6% in July, while the European Stoxx600 index was up 3.2%. Emerging markets continued to underperform. The Shanghai Composite Index rose just 1.0%, amid concerns about the potential impact of US tariffs on Chinese imports, and is down 13.0% this year.

Iron ore rose 4.8% but other commodity prices were weaker, mainly due to fears that tariffs would dampen Chinese growth and hence demand for commodities. Copper (-4.9%), nickel (-4.9%) and lead (-10.6%) all fell, while oil (-7.7%) also came under pressure due to expectations of oil higher supply from OPEC producers.

The Australian market underperformed its major global peers, with the S&P/ASX 200 Accumulation Index rising 1.4%. Small companies underperformed, with the Small Ords falling 1.1% while the Top 50 rose 1.6%.

The Telco sector (+7.9%) outperformed, led by Telstra (TLS +8.4%) which recovered somewhat but is still down 21.8% over the year. Industrials (+3.5%), Consumer Discretionary (+2.1%), Healthcare (+2.1%), and Financials (+2.0%) were also strong while Gold (-6.4%) and Utilities (-1.4%) lagged.



This graph shows how \$100,000 invested at the Fund's inception has increased to \$978,000 (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 \$515,400 over the same period. The returns exclude the benefits of imputation credits.

	Direct Investment (Class A)	Platform Investment (Class B)
APIR code	PVA0001AU	PVA0011AU
Minimum Investment	\$20,000	N/A
Issue price	\$ 2.1131	\$ 2.1035
Withdrawal price	\$ 2.0971	\$ 2.0875
Distribution (30/06/2018)	\$ 0.4948	\$ 0.4948
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 less 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

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## Fund review and strategy

The Fund rose 1.9% in July, a pleasing start to the new financial year, and it is up 15.4% over the last 12 months. Key contributors to fund performance in July were **Reliance Worldwide**, **Cleanaway** and **BHP**. Detractors during the month included **Nine Entertainment**, **REA Group** and **A2 Milk**.

While fund activity was negligible in July, there were some interesting corporate developments affecting our holdings. BHP received a US\$10.8bn bid for its US shale assets from BP. The sale price was higher than expected and allows BHP to exit a low returning business, further reduce debt and underpin future capital returns to shareholders. Shareholder value creation is not limited to merely "growth", and with BHP we believed a renewed focus on the most productive parts of its business, combined with very strong cash flows and rapidly reducing debt, would be positive for shareholder returns. This has been the case.

Nine Entertainment also proposed a merger with media company Fairfax. The rationale for the merger is sound. Both companies have spent considerable amount of effort repositioning from old media to digital, with an emphasis on content. A merged entity will offer larger scope and a stronger platform to compete in an evolving media/telecommunication sector.

Our near term focus will be on the August reporting period. We look for sign posts that help reinforce the investment rationale of our holdings. At the same time, one of the key lessons we have learnt from almost 20 years of investment history is to focus on things that matter: good management teams, strong business models and decent valuations, and not being too focused on the short term.

Top Contributors (Absolute)	Sector
Reliance Worldwide	Industrial
Cleanaway Waste	Industrial
BHP	Materials
Top Detractors (Absolute)	Sector
NEC	Consumer Discretionary
A2 Milk	Consumer Staples
REA Group	Information Technology
Platforms	
Asgard, Ausmaq, Beacon, BT Wrap, First Wrap, Hub24, IOOF, Global One, Macquarie Wrap, Netwealth, Powerwrap, Symetry, Wealthtrac	

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