

# Prime Value Opportunities Fund

## Fund Update – July 2019



- Major share markets were mixed in July with good performances in the US and UK offset by weaker north Asian markets due to geopolitical tensions
- The Australian share market was a standout, finally surpassing its pre GFC peak on a price index level
- Fund performance was good, up 2.9% and kept pace with the broader market, led by CSL and gold miner Evolution Mining

	Total Return*	Benchmark (8% pa)	Value Add
Since inception (p.a.)	<b>11.9%</b>	8.0%	3.9%
5 Years (p.a.)	<b>8.5%</b>	8.0%	0.5%
3 Years (p.a.)	<b>6.4%</b>	8.0%	(1.6%)
2 Years (p.a.)	<b>10.5%</b>	8.0%	2.5%
1 Year	<b>3.8%</b>	8.0%	(4.2%)
3 Months	<b>5.9%</b>	2.0%	3.9%
1 Month	<b>2.9%</b>	0.7%	2.2%

\* 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). 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.

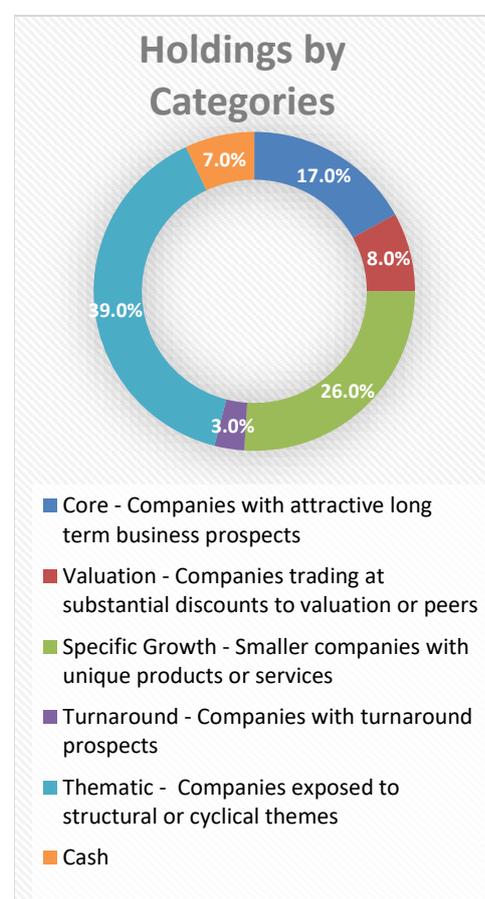
	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	FYTD	ITD
FY 2013					1.8%	1.7%	4.3%	6.2%	(0.6%)	4.0%	(2.2%)	(1.6%)	<b>14.1%</b>	<b>14.1%</b>
FY 2014	4.4%	2.6%	4.3%	5.0%	(1.1%)	1.5%	(1.9%)	5.9%	0.2%	0.3%	0.3%	(1.4%)	<b>21.4%</b>	<b>38.5%</b>
FY 2015	2.5%	1.0%	(4.1%)	3.1%	(1.9%)	0.7%	1.5%	5.7%	1.4%	(1.0%)	0.5%	(4.3%)	<b>4.6%</b>	<b>44.9%</b>
FY 2016	5.3%	(3.7%)	0.1%	5.5%	1.7%	2.4%	(3.4%)	(1.9%)	3.6%	2.3%	4.4%	(1.8%)	<b>14.9%</b>	<b>66.5%</b>
FY 2017	6.5%	(1.7%)	(0.5%)	(4.9%)	(0.2%)	2.7%	(1.1%)	2.4%	2.1%	1.3%	(1.2%)	1.2%	<b>6.3%</b>	<b>77.0%</b>
FY 2018	(1.2%)	1.0%	0.4%	4.2%	1.6%	0.4%	(0.2%)	2.5%	(2.5%)	3.0%	2.1%	2.4%	<b>14.3%</b>	<b>102.4%</b>
FY 2019	1.7%	2.6%	(1.9%)	(8.2%)	(1.9%)	(1.8%)	3.2%	3.4%	0.2%	2.9%	0.3%	2.6%	<b>2.5%</b>	<b>107.5%</b>
FY 2020	2.9%												<b>2.9%</b>	<b>113.5%</b>

Top five holdings	Sector
BHP	Materials
Westpac	Financials
CSL	Health Care
Macquarie Group	Financials
Amcor	Materials

The top five holdings make up approximately 30.6% of the portfolio

Feature	Fund facts
Portfolio Manager	ST Wong
Investment Objective	To achieve superior absolute total returns by providing medium to long term capital growth without the constraints of a share market benchmark.
Benchmark	8.0% pa
Inception Date	5 November 2012
Cash	0 - 100%
International Exposure <sup>#</sup>	0 - 20%
Distributions	Half-yearly
Recommended Investment Period	3 + years
Research Rating	Zenith – Recommended Lonsec - Recommended

<sup>#</sup> The Prime Value SIV Opportunities Fund will have no exposure to international securities in accordance with SIV regulations



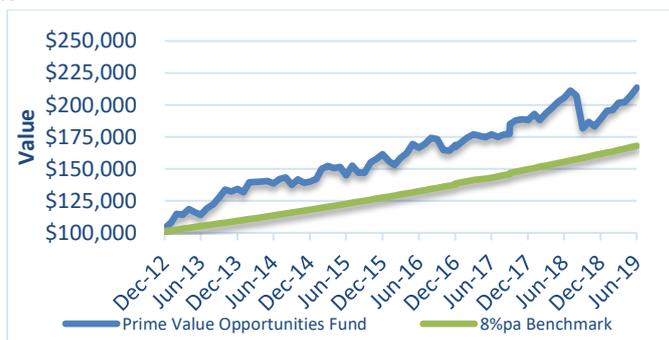
## Market review

Global markets were mixed in July, with developed markets up 1.2% month on month in local currency terms, but emerging markets fell 0.9%. In local currency terms, the ASX 200 Index was the best performing major index (+2.9%), followed by the FTSE 100 Index (+2.2%) and S&P 500 Index (+1.4%).

Since the December 2018 low, the Australian share market is up close to 25%, making it one of the best performing share markets globally over that period. Several key drivers were evident including a substantial rise in iron ore prices, an unexpected Coalition win, APRA easing mortgage lending requirements and RBA flagged interest rate cuts.

In July, defensive stocks led the Australian market higher. Consumer Staples (+9.5%) were the top performer, with all five ASX 100 constituents outperforming (A2M +23.6%, Treasury Wines +18.6%, Woolworths +7.2%, Coles +6.4% and Coca Cola Amatil +3.9%). Health Care (+5.9%) and IT (+5.0%) were the next best outperformers, while Materials (+1.0%), Energy (+1.7%) and Financials (+1.7%) underperformed. There was a contrast between the double-digit gains for gold stocks and the decline of major iron ore miners. The contrast is interesting, as the gold price was up less than 2% in July while iron ore was up nearly 10% in July.

The US Federal Reserve and RBA cut interest rates by 25bp, with the RBA signalling lower rates for longer. The Australian Dollar fell to \$0.689, despite another \$4.5 per ton lift in iron ore prices to \$121 per ton.



This graph shows how \$100,000 invested at the Fund's Inception has increased to \$213,500 (net of fees excluding performance fees). This compares very favourably with the return of the benchmark, where a \$100,000 investment would have increased to \$168,000 over the same period. The returns exclude the benefits of imputation credits.

	Direct Investment (Class A)	Platform Investment (Class B)
APIR code	PVA0005AU	PVA0006AU
Minimum Investment	\$20,000	N/A
Issue price	\$ 1.6586	\$ 1.6254
Withdrawal price	\$ 1.6460	\$ 1.6130
Distribution (30/06/2019)	\$ 0.0336	\$ 0.0335
Indirect Cost Ratio (ICR)*	0.95% p.a.	0.95% p.a.
Performance fee**	15%	15%

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

## Fund review and strategy

The Fund gained 2.9% in July, keeping pace with the broader market due to a combination of positive fundamental developments pushing holdings such as CSL and A2 Milk higher and sentiment pulling gold miner Evolution Mining's share price higher.

Key contributors during the month included CSL (+6.8%), A2 Milk (+23.6%) and Evolution Mining (+15.1%). Key detractors during the month included Amcor (-4.1%), Rio Tinto (-4.7%) and Credit Corp (-5.2%).

Gold stocks have been one of the strongest performers this year reflecting a lower interest rate environment and investors' concerns on global economic growth. In the last six months gold producer Evolution Mining has contributed strongly to portfolio performance. We invested in Evolution Mining for the following reasons: (1) a strong balance sheet, with a net cash position – which gives the company the optionality to acquire assets in a consolidating industry; (2) management's keen focus on improving the quality of the overall portfolio. This has seen management dispose lower quality mines to focus on higher quality assets where value can be added. Nevertheless, gold miners' share prices have appreciated substantially this year and it's unlikely we would add to our position barring further deterioration in geopolitical tensions. An alternative will be to increase positions in companies that services the gold sector.

### Portfolio positioning

It's clear to us that economic growth both in Australia and elsewhere will slow over the next six months, and is a key reason why central banks are looking to lower interest rates further. Corporate earnings should also slow alongside economic growth. However, lower interest rates remain key to share markets' performance, in our view. This is the key fundamental reason why the Australian share market has posted a very strong performance throughout 2019 and keep us positive on the broader market outlook.

The upcoming reporting season over August will be no different to others – yielding both winners and losers. We will be looking for stock ideas that will persist through the current short-term cyclical lows, for companies that have a strong business model and will post strong earnings growth over the medium term. At this early stage of the reporting period, REA Group appears to be one of those companies.

Top contributors (absolute)	Sector
CSL	Health care
A2 Milk	Consumer staples
Evolution Mining	Materials
Top detractors (absolute)	Sector
Amcor	Materials
Rio Tinto	Materials
Credit Corp	Financials
Platforms	
BT Wrap, Macquarie Wrap, Netwealth, Hub24, Powerwrap	

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