Prime Value Cash Plus Fund
Fund Update – August 2019

By Matthew Lemke, Fund Manager

- The Fund had an above-target return despite Australian interest rates falling to all-time lows and significant market volatility
- Risk indicators have increased with heightened concerns around the US/China trade outcome
- Long term agreements that have underpinned global trade, the monetary system and finance are being put under the microscope
- The Fund is being managed defensively and can withstand further market volatility

	Net Return*	Net Return including Franking Credits**	RBA Cash Rate
Since inception (p.a.)	**3.64%**	4.22%	1.75%
5 Years (p.a.)	**3.49%**	**4.43%**	**1.71%**
3 Years (p.a.)	**3.95%**	4.71%	1.47%
1 year	**4.21%**	4.76%	1.40%
3 Months	**1.29%**	1.42%	0.27%
1 Month	**0.32%**	0.32%	0.08%

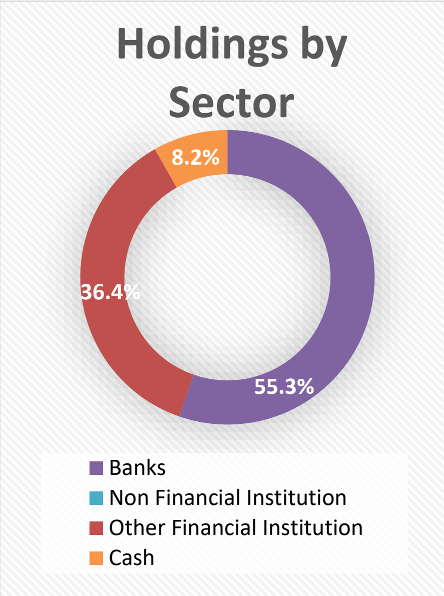
* Performance figures have been calculated in accordance with the Financial Services Council (FSC) standards. No allowance has been made for taxation. Performance assumes the reinvestment of income distributions. Past performance is not necessarily an indicator of future performance. Net returns are calculated after management fees. Gross returns are calculated before management fees.
**Returns grossed up for Franking Credits are estimates.

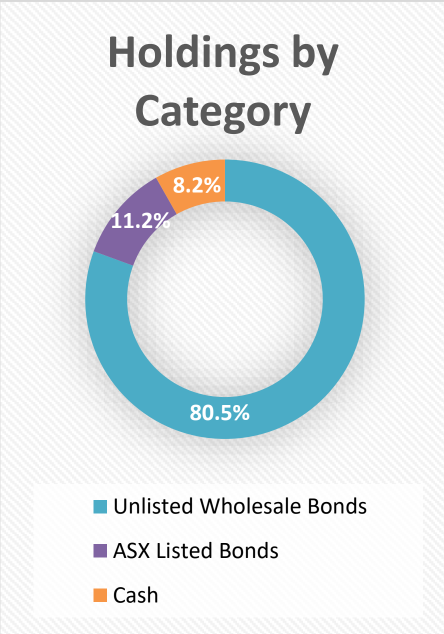
Major Holdings	Sector	Category
NAB	Banks	Wholesale Notes
Westpac	Banks	Wholesale Notes
CBA	Banks	Wholesale Notes
ANZ	Banks	Wholesale Notes
Bank of Queensland	Banks	Wholesale Notes

The top five holdings make up approximately 30.7% 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	$1.0343
Withdrawal Price	$1.0323
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 return above its target in August despite Australian interest rates falling to all-time lows in the month and also despite the volatility seen in global markets. Equity markets were very volatile with the US S&P500 falling over 2.5% on three days during the month. However by month-end the US equity market was only marginally down, and not far off its all-time high.

The Fund is not directly exposed to the equity market, however the equity market affects the credit markets in which the Fund participates. These markets were far less volatile during the month. Debt capital markets actually had good new issuance volumes and solid investor demand.

The A$ fell to the low 67c area (trading momentarily under 67c), gold rose to US$1,525, the Yuan was devalued to 7.16, and the VIX (which measures US equity volatility) and many other risk indicators. This highlights the market's heightened concern for the US/China trade outcomes and specifically if the US economy will fall into recession. Both countries are definitely experiencing a growth slowdown at the moment.

Trump has been calling for the US Fed to cut rates in the hope that this will weaken the US dollar, and help the US economy. Meanwhile, China has allowed the Yuan to progressively devalue which is a retaliatory action against the US tariffs. The net effect is hard to ascertain given that China's exports to the US far exceed US exports to China, although there are many goods manufactured in China that are finished elsewhere. The US over recent years has become far more insular in terms of its need to trade, and hence its trade volumes; a classic example of this is that the US has turned to being an oil exporter with the economic production of oil from oil shale.

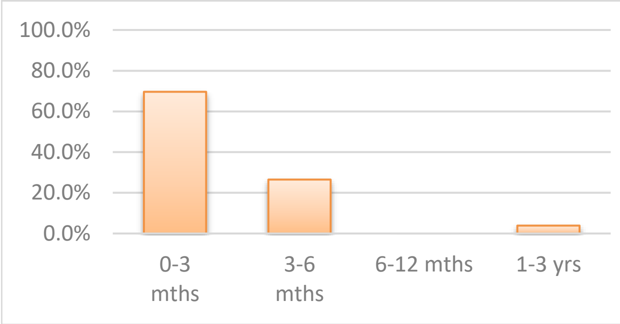
It seems through Trump's actions a number of the key elements of the global monetary and financial system that have existed since the Bretton Woods agreement of 1944 are being unwound or reconstituted. Bretton Woods established the gold standard facilitating global trade, and multilateral organisations such as the World Bank and the IMF. Establishing the gold standard gave the US Dollar a significant role in the global financial system, so when the gold standard was terminated in 1971 the US Dollar became the pre-eminent global currency and store of value. It thus became the most significant currency in reserves managed by global central banks, and the major currency used in trade, giving the US significant strategic power and economic clout. Trump is pressing to reduce the funding that the US has been providing to global security since WW2 and making more favourable the various trade agreements and alliances that exist between the US and many countries, whilst still retaining US's status as the pre-eminent economy and military power. These outcomes are still very much evolving, complicated by the economic growth slowdown happening globally at the moment.

Clearly a key event for the market is the RBA monetary policy meeting on 4 September. My view is that with the A$ almost under 67c, the RBA will not cut rates again at this meeting but at least wait for the Q3 CPI release late October, which could mean a rate cut at the "Melbourne Cup" RBA meeting on the first Tuesday in November. Of course the economic and markets situation is very fluid at the moment so an interim rate cut to 0.75% cannot be ruled out.

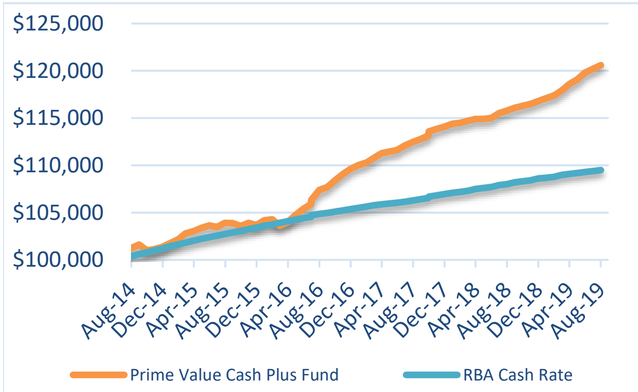
We will be continuing to manage the Fund defensively, looking for 'strategic' investments as they arise, and ensuring we meet the return target and steward investor capital.

The Fund is well-positioned to withstand further market volatility. We fully expect the Fund will perform well and on target throughout the remainder of 2019 and 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 $120,600 (net of fees). This compares with the return of the RBA cash rate, where a $100,000 investment would have increased to $109,500 over the same period.

Contact details:

Brittany Shazell, Dora Grieve, Julie Abbott, Riza Crisostomo, Serena Shi & Daizi Zheng

Client Services Team
Phone: 03 9098 8088
Email: info@primevalue.com.au
Web: www.primevalue.com.au

Mail:

Prime Value Asset Management Ltd
Level 9, 34 Queen Street
Melbourne VIC 3000

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