Prime Value Cash Plus Fund
Fund Update – October 2019

By Matthew Lemke, Fund Manager

- The Fund had a very good month in October, achieving an above-benchmark target return
- Helping the Fund's performance was the partial trade agreement reached by China and the US
- Brexit delays, Trump's possible impeachment, and the protests in Hong Kong are not causing much impact on global markets but we are watching these events closely
- The RBA cut the cash rate to 0.75%, an all-time low; the Governor indicated the RBA will not protect savers
- The Fund benefitted from Standard & Poor's rating upgrade of hybrid and subordinated debt issued by the major banks

	Net Return*	Net Return including Franking Credits**	RBA Cash Rate
Since inception (p.a.)	**3.64%**	4.22%	1.72%
5 Years (p.a.)	**3.72%**	**4.58%**	**1.66%**
3 Years (p.a.)	**3.83%**	4.54%	1.43%
1 year	**4.35%**	4.85%	1.29%
3 Months	**0.94%**	1.02%	0.23%
1 Month	**0.37%**	0.37%	0.06%

* 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.

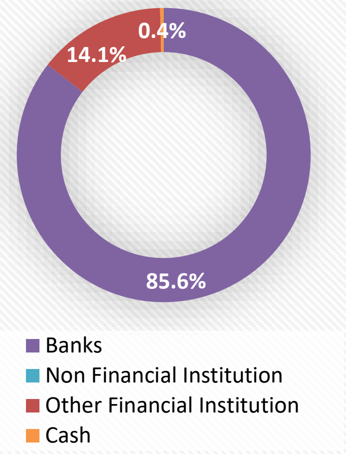
Major Holdings	Sector	Category
NAB	Banks	Wholesale Notes
Westpac	Banks	Wholesale Notes
CBA	Banks	Wholesale Notes
ANZ	Banks	Wholesale Notes
Bank of Queensland	Banks	Wholesale Notes

The top five holdings make up approximately 56.2% of the portfolio.

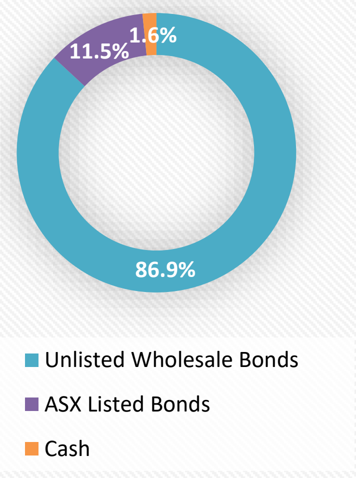
Feature	Fund Facts
APIR Code	PVA0009AU
Portfolio Manager	Matthew Lemke
Investment Objective	To provide regular income with low risk exposure. The Fund targets a return to investors in excess of the Reserve Bank of Australia's (RBA) cash rate with minimal risk of capital loss in the medium term.
Benchmark	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	$1.0330
Withdrawal Price	$1.0326
Distribution (30/09/19)	$0.0075

[1] Unless otherwise stated, all fees quoted are inclusive of GST and less the relevant RITC

Holdings by Sector



Holdings by Category



Fund review and strategy

The Fund had a very good month in October, achieving an above-benchmark target return.

Helping the Fund's portfolio was an expectation that China and the US would reach a trade agreement, albeit only a partial or interim agreement, to be announced in November. It is important for both Presidents Trump and Xi to both show progress and that they have gained concessions.

Behind trade matters sits a range of security, defence and economic issues that will require China and the US to reach an entente as part of a new world order. This will require a fundamental reformation of economic, institutional and geopolitical arrangements that have existed since WW2. This can only evolve over years. Anything affecting this entente will cause bouts of volatility in markets.

Also helping the market was 25bp rate cut by the US Fed to a range of 1.5%-1.75%. The move was the 3rd cut in four months. Fed Chair Jerome Powell implied the bank would hold off on further cuts.

The market is not showing much response to the possible impeachment of Donald Trump. Markets are not expecting an impeachment to succeed.

The protests in Hong Kong also did not impact the Australian or global markets although it is highly likely that property prices in Australia have increased due to money coming from Hong Kong.

Brexit problems and delays in the UK did not impact the Australian credit market, and only marginally impacted global markets. The next important milestones are the Election in December, with the Withdrawal Agreement deadline being extended to 31 January. Our view is that only fundamental problems surfacing in the EU after the UK withdraws will cause any meaningful impact on global markets.

Both the interim China/US trade agreement and Fed rate cut rallied global equity markets and credit (debt) markets. Prices in credit markets rallied as investors chased yield. This dynamic is particularly strong in Australia following the RBA's third rate cut since June to 0.75%, an all-time low. Bank savings rates are generally below this level and Term Deposit rates are not much above 1% with the higher rates requiring the investor to agree to a 3-5 year investment term. The RBA meets Melbourne Cup day November 5, however a rate cut is not expected after the strong employment data.

The rate cut in October was accompanied by comments from the RBA Governor that rates would stay "lower for longer" and that that the RBA would not be protecting savers. In fact, the Governor said that Australia had a savings "problem". We disagree with this assessment. We certainly disagree that the RBA should not be managing monetary policy to protect savers. Savers are exercising their fundamental right to protect and manage their wealth.

Even though the unemployment rate fell in data released in October, the fall was only very marginal (from 5.3% to 5.2%). This indicates further rate cuts might eventuate given the RBA now has a revised "Full Employment" target of around 4.2%.

We can expect further media talk of negative interest rates and potential quantitative easing (QE). Both are possible and cannot be ruled out.

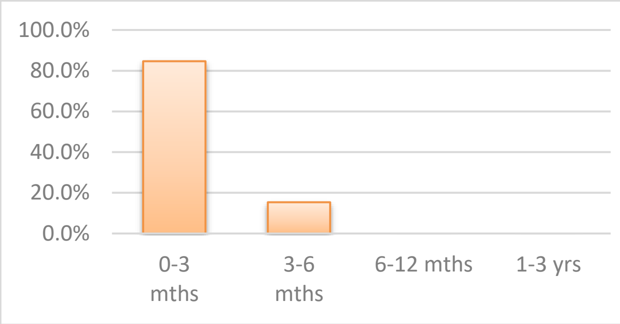
QE is definitely a policy option however it would not be as effective as in the US given that a lot more of the US credit market is priced off the longer end of the interest rate curve. In Australia, most personal, mortgage and corporate debt re-prices off short-term rates which would only give QE a limited and possibly dysfunctional impact.

The real question is the state of the Australian economy. The forecast Federal Budget surplus will help protect Australia against any downturn. A major influence on Australia's economic performance is China and if it can produce economic growth of around 6% per annum, which in our view is a reasonable assumption.

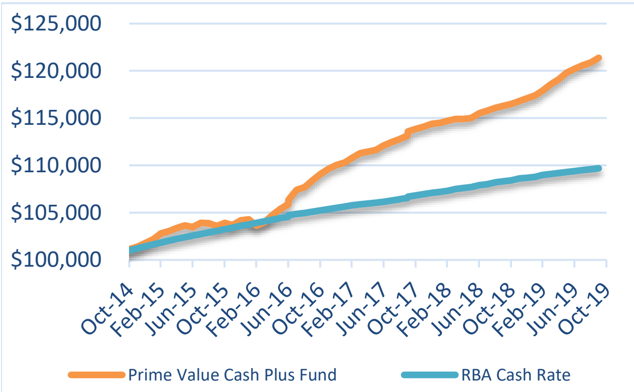
Even though markets seem benign at the moment, we are managing the Fund in a very defensive manner. In September and October we took the market opportunity to switch out of some investments into higher credit and more robust securities. We equally benefitted from Standard & Poor's rating upgrade of hybrid and subordinated debt issued by the major banks.

We expect the Fund to perform well over 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 $121,380 (net of fees). This compares with the return of the RBA cash rate, where a $100,000 investment would have increased to $109,690 over the same period.

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