Prime Value Diversified High Yield Fund
Fund Update – August 2019

By Matthew Lemke, Fund Manager

- The Fund had its first month of operation in August - we are grateful to all clients of Prime Value who invested in the Fund
- The Fund generated a return above the target return of 5% per annum net of fees, 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
- We will be managing the Fund defensively but with a clear view to earn the 5% net of fees target return.

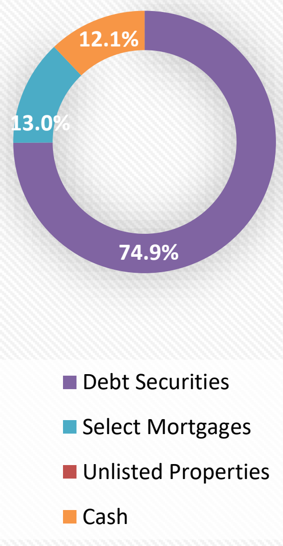
	Net Return*	Net Return including Franking Credits**	RBA Cash Rate
Since inception	**0.45%**	0.45%	0.08%
1 Month	**0.45%**	0.45%	0.08%

* 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.
**Returns grossed up for Franking Credits are estimates.

Feature	Fund Facts
Portfolio Manager	Matthew Lemke
Investment Objective	The Fund targets a return to investors of 4.0% p.a. over the RBA official cash rate. This return may vary from month to month depending on the market and as funds are invested.
Benchmark	RBA Cash Rate + 4%
Inception Date	1 August 2019
Distributions	Monthly
Recommended Investment Period	1 + year
Minimum Investment	$50,000
Indirect Cost Ratio (ICR)	0.85%[1] p.a.
Performance Fee	15% of net performance above the RBA Cash Rate + 4% p.a
Issue price	$1.0012
Withdrawal Price	$0.9992
Distribution (31/08/19)	$0.0042

1 The Fund may hold one or more unlisted property trusts. We estimate that the Fund's estimated proportion of management fees charged to such unlisted property trust(s) is 0.24% pa. The above 0.85% pa management fee excludes this indirect cost.

Holdings by Sectors



Fund review and strategy

The Fund had its first month of operation in August. The Fund generated a return above the target return of 5% per annum net of fees, which was very pleasing and occurred despite Australian interest rates falling to all-time lows in the month and also despite the volatility seen in global financial markets. We are grateful to all clients of Prime Value who invested in the Fund for their faith in us. We take our stewardship role very seriously.

The Fund's performance was very pleasing given the degree of volatility in global equity markets with the S&P 500 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 reasonably stable during the month.

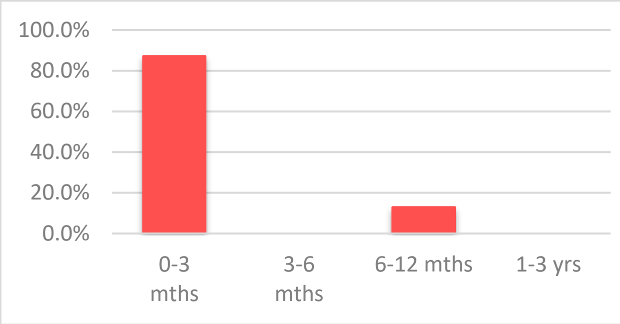
The A$ fell to the low 67c area (trading momentarily under 67c), gold rose to US$1,525, the Yuan was devalued to 7.16, and the VIX (which measures US equity volatility) and many other risk indicators highlighting the market's concern.

The major concern is whether the US/China "trade war" and specifically whether it will force the US economy into recession. Both countries are 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.

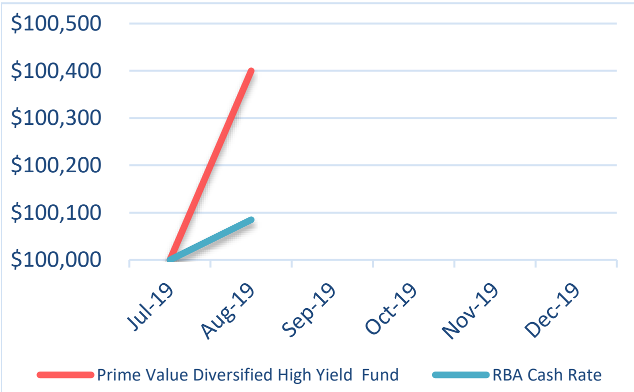
It seems through Trump's actions a number of the key elements of the global monetary and financial system that have existed since the Bretton Woods agreement of 1944 are being unwound or reconstituted. Bretton Woods established the gold standard facilitating global trade, and multilateral organisations 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 managing the Fund defensively but with a clear view to earn the 5% net of fees target return. This return is based on a margin of 4% over the RBA cash rate (1% at the present time). We are looking for 'strategic' investments as they arise. As the Fund grows we will be adding investments and diversifying the portfolio. We fully expect the Fund to perform well throughout the remainder of 2019 and 2020.

Interest Rate Reset Management



The Fund's portfolio weighted average interest rate reset duration is approximately 0.32 years. The majority of interest rates are reset on average every 3-6 months. 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 $100,400 (net of fees). This compares with the return of the RBA cash rate, where a $100,000 investment would have increased to $100,085 over the same period.

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