

Prime Value Diversified High Yield Fund

Fund Update – October 2019



By Matthew Lemke, Fund Manager

- The Fund had a good month in October, achieving its benchmark target return of 0.42%.
- 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
- We expect the Fund to continue to perform well for the remainder of 2019, and 2020

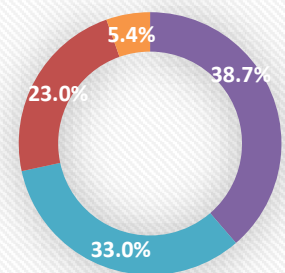
	Net Return*	Net Return including Franking Credits**	RBA Cash Rate
3 Months (Since inception)	1.42%	1.42%	0.23%
1 Month	0.42%	0.42%	0.06%

* 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.

**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	\$1.0020
Withdrawal Price	\$1.0010
Distribution (31/10/19)	\$0.0042
<small>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.</small>	

Holdings by Sectors



- Debt Securities
- Select Mortgages
- Unlisted Trusts
- Cash

Fund review and strategy

The Fund had a good month in October, achieving its 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.

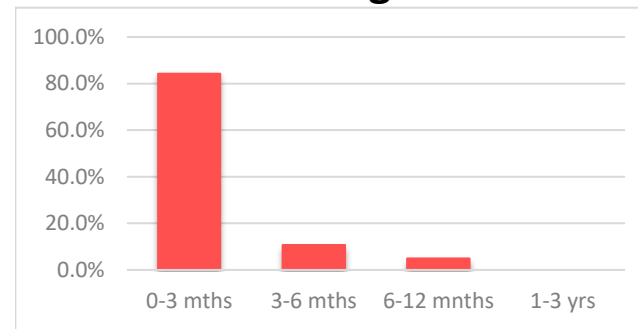
The real question is the state of the Australian economy. The forecast Federal Budget surplus will help protect Australia against any downturn. A major influence on Australia's economic performance is China and if it can produce economic growth of around 6% per annum, which in our view is a reasonable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

Even though markets seem benign at the moment, we are managing the Fund in a very defensive manner. We have been very selectively adding investments that meet all our criteria.

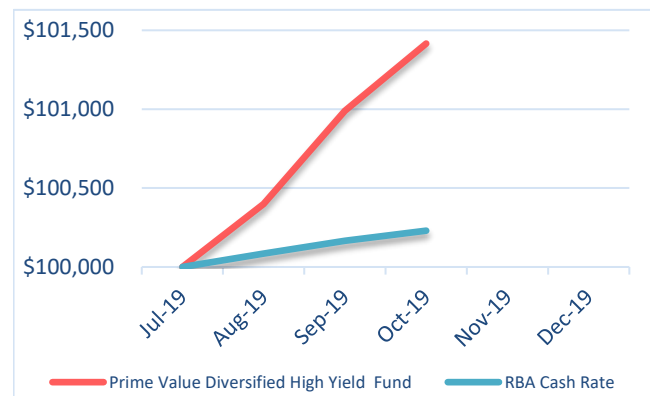
We expect the Fund to perform well over the remainder of 2019, and 2020.

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Interest Rate Reset Management



The Fund's portfolio weighted average interest rate reset duration is approximately 0.32 years. The majority of interest rates in the portfolio are reset on average every 3-6 months.



This graph shows how \$100,000 invested at the Fund's inception has increased to \$101,416 (net of fees). This compares with the return of the RBA cash rate, where a \$100,000 investment would have increased to \$100,230 over the same period.

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