

Prime Value

Equity Income (Imputation) Fund

Fund Update – October 2019

- Equity markets were relatively flat in October as global growth concerns were offset by greater optimism of an initial China-US trade agreement and Brexit resolution.
- Sector allocation (Zero in Healthcare and holdings in Banks) hurt performance
- Names leveraged to housing recovery contributed to return

	Total Return*	Growth Return*	Distribution Return*	Total Return including Franking Credits**	S&P/ASX 300 Accumulation Index
Since inception (p.a.)	10.5%	5.3%	5.2%	12.6%	8.5%
10 Years (p.a.)	5.8%	1.4%	4.4%	8.0%	8.2%
5 Years (p.a.)	5.6%	1.3%	4.3%	7.7%	8.6%
3 Years (p.a.)	7.7%	2.9%	4.7%	9.9%	12.5%
1 Year	9.6%	2.5%	7.1%	12.7%	19.5%
3 Months	(2.4%)	(3.1%)	0.8%	(1.8%)	(0.8%)
1 Month	(1.3%)	(1.3%)	0%	(1.3%)	(0.4%)

* 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) standards. 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.

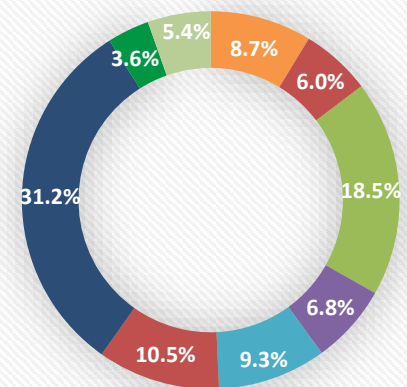
** Returns grossed up for franking credits are estimates.

Top five holdings	Sector
BHP	Materials
Commonwealth Bank	Financials
Macquarie Group	Financials
Westpac	Financials
National Australia Bank	Financials

The top five holdings make up approximately 29.2% of the portfolio.

Feature	Fund facts
Portfolio Manager	Leanne Pan
Investment objective	To provide regular tax-effective income, combined with competitive capital growth over the medium to long-term, by managing a portfolio of assets comprised mainly of Australian equities listed on any recognised Australian stock exchange.
Benchmark	S&P / ASX 300 Accumulation Index
Inception Date	20 December 2001
Cash	0 - 30%
Distributions	Quarterly
Recommended investment period	3 + years

Holdings by Sector



Market review

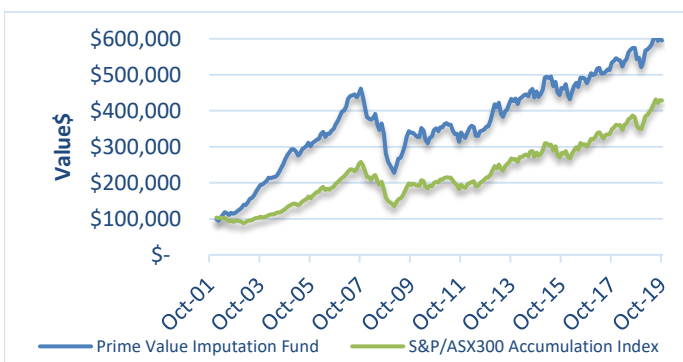
Australian indexes were relatively flat in October with the ASX100 +0.1% and Small Ordinaries -0.7%. Resources were softer than industrials as commodity prices fell moderately. The Small Resources Accumulation Index was -1.5% and the Small Industrials Accumulation Index was -0.5%.

Global newsflow was dominated by Brexit and China-US trade relations. The UK set an election date for December 12 which may deliver a resolution to ongoing uncertainty on Britain's position in the European Union. Conflicting reports were coming from the US and Chinese sides about the prospect of delivering a first stage trade deal with the cancellation of APEC complicating the issue somewhat. The two parties do appear to be moving closer to a stage one agreement rather than further apart which was viewed positively by markets.

The US Federal Reserve cut interest rates at the end of the month, its third cut in 2019 and indicated it may now pause before making further changes. The future direction of US rates will be driven by economic data, particularly consumer related which has proved resilient.

Interestingly long term bond yields have been rising moderately in recent months both in the US and Australia. This typically implies better economic conditions ahead which contrasts with many economic headlines which are less positive.

The Australian market has responded to rising bond yields by lifting cyclical and value stocks at the expense of high growth momentum stocks.



This graph shows how \$100,000 invested at the Fund's inception has increased to \$595,400 (net of fees excluding performance fees). This compares very favourably with the return of the market, where a \$100,000 investment would have increased to \$428,400 over the same period. The returns exclude the benefits of imputation credits.

	Direct Investment (Class A)	Platform Investment (Class B)
APIR code	PVA0002AU	PVA0022AU
Minimum Investment	\$20,000	N/A
Issue price	\$2.5380	\$2.5188
Withdrawal price	\$2.5388	\$2.5196
Distribution (30/09/2019)	\$ 0.0200	\$ 0.0206
Indirect Cost Ratio (ICR)*	1.435% p.a.	1.23% p.a.
Performance fee**	20.5%	20.5%

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

Fund review & strategy

The fund returned -1.3% for the month. From a sector performance perspective, not investing in healthcare hurts both absolute and relative performance. Health sector has now become the "safe" place to invest for growth as many high growth, unprofitable technology companies took a breather during the month. Absolute contributors were **Sydney Airport** (+9.3%), **Genworth Mortgage Insurance** (+14.7%) and **Orora** (+6.9%, on sale of Australia fibre business at a premium). Detractors included **Noni B** (-15.3%, currently trading on very conservative multiples if forecast comes through), **Newcrest** (-9.9%) and **ANZ** (-6.2%).

The ANZ result on the last day of the month threw a spanner in the banking sector. Despite all the self-helps, it would seem that the sector cannot escape the vagaries of low interest rate (pressure on interest margin coming in much quicker than expected), competitive pressure, additional regulatory capital requirements and remediation charges even though many were anticipated. We also witness the rise of niche players (with the assistance of technology) taking share from the banks. The role of banks is evolving and we can expect more changes to come. To remain competitive, banks have to invest, be it in technology, system or processes. It will take time to move the dial. In short, both revenue and cost lines are under pressure - not a positive scenario. For the income fund, we continue to hold banks into the dividend period and will reassess our positions in due course.

On the other hand, names connected with housing seemed to recover well for the month. Genworth Mortgage Insurance (GMA) surprised with premium growth driven by improved sentiments in most capital cities. Its strong reserve position also enabled them to declare an unfranked dividend of 24.2 cents, or 6+% yield. Mortgage brokers Australian Finance Group (AFG) continued its strong performance.

Top Contributors (Absolute)	Sector
Genworth Mortgage Insurance	Financials
Sydney Airport	Industrials
Orora	Materials

Top Detractors (Absolute)	Sector
Noni B	Consumer Discretionary
Newcrest	Materials
ANZ	Financials

Platforms
Ausmaq, Beacon, BT Wrap, First Wrap, Hub24, Netwealth, Symetry, Wealthtrac

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