

# Prime Value Growth Fund

## Fund Update – September 2019



- Hints of improvements in the macro-economic backdrop led to a strong September monthly performance for share markets
- Like its global peers, the Australian share market was led higher by 'value' stocks, at the expense of 'growth'
- The Fund rose 0.4% during the month. We remain highly invested in the market given the low interest rate environment but more so because we see attractive opportunities

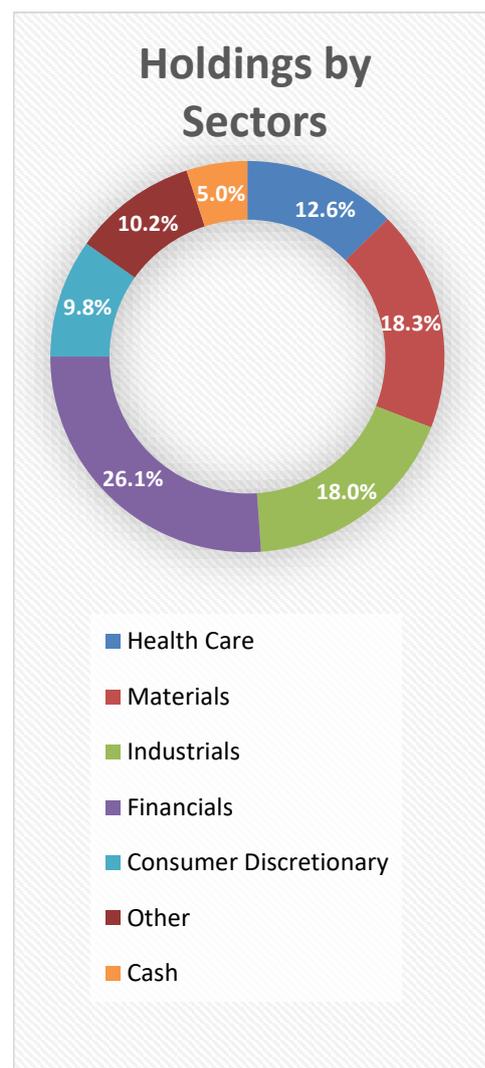
	Total Return*	S&P/ASX 300 Accumulation Index	Value Add
Since Inception (p.a.)	<b>11.1%</b>	8.5%	2.6%
5 Years (p.a.)	<b>3.8%</b>	9.5%	(5.7%)
3 Years (p.a.)	<b>4.7%</b>	11.9%	(7.2%)
1 Year	<b>(2.0%)</b>	12.6%	(14.6%)
3 Months	<b>(0.6%)</b>	2.6%	(3.2%)
1 Month	<b>0.4%</b>	1.9%	(1.5%)

\*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.

Top five holdings	Sector
BHP	Materials
CSL	Health Care
Westpac Bank	Financials
ANZ	Financials
CBA	Financials

The top five holdings make up approximately 33.4% of the portfolio

Feature	Fund facts
Portfolio Manager	ST Wong
Investment Objective	To provide superior medium to long term capital growth, with some income, by managing a portfolio of predominantly Australian equities listed on any recognised Australian Stock Exchange.
Benchmark	S&P/ ASX 300 Accumulation Index
Inception Date	10 April 1998
Cash	0 - 30%
Distributions	Half-yearly
Recommended Investment Period	3 + years



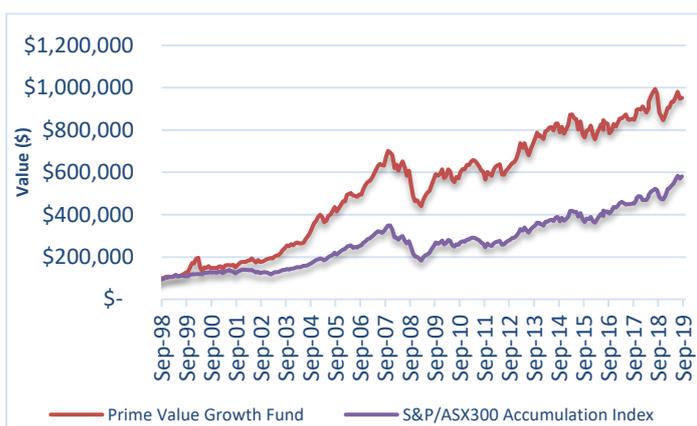
## Market review

Global markets rallied in September, with developed markets up 2.4% in local currency terms, and emerging markets rising 1.5%. The Nikkei 225 (Japan) was the best performing major index (+5.8%), followed by the Euro Stoxx 50 (4.3%) and FTSE 100 (3.2%). Value-heavy European indices delivered the strongest performance in September. In contrast, the more growth-oriented NASDAQ Composite (+0.5%) and MSCI China (-0.2%) underperformed.

With hints of an improvement in the macro-economic backdrop, combined with a sustained period of value-investing underperformance and extreme positioning, triggered a rotation from growth to value stocks. The rotation in Australia was particularly pronounced, with JP Morgan estimating value stocks outperformed growth stocks by 384 basis points.

Financials (+4.5%) and Energy sectors (+4.3%) led the global 'value' stocks uplift, with both outperforming strongly in the month. The rotation to 'value' stocks was similar locally, with banks (+4.9%) and energy (+3.9%) buttressing the gains for value. At the other end of the spectrum, growth and defensives sectors languished, with healthcare (-3.2%), communication services (-3.3%) and REITS (-2.8%) bearing the brunt of the downdraft in Australia.

After a slump in August, iron ore prices rebounded in September. The Bloomberg Commodities Index rose 1.0%. Oil spiked mid-month following an attack on a major Saudi Arabian processing plant, with the price rising 14.2% on 16 September. Over the month, however, Brent oil price gained just 1.4% as processing capacity at the damaged facility was restored more quickly than expected.



This graph shows how \$100,000 invested at the Fund's inception has increased to \$952,200 (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 \$581,300 over the same period. The returns exclude the benefits of imputation credits.

	Direct Investment (Class A)	Platform Investment (Class B)
APIR code	PVA0001AU	PVA0011AU
Minimum Investment	\$20,000	N/A
Issue price	\$1.8557	\$1.8479
Withdrawal price	\$1.8417	\$1.8339
Distribution (30/06/2019)	\$ 0.1061	\$ 0.1074
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 less 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

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## Fund review and strategy

The Fund posted a 0.4% gain in September but lagged the ASX300 Accumulation Index's 1.8% gain. The underperformance versus the ASX300 Accumulation Index was against the backdrop of a significant market rotation from 'growth' to 'value' stocks. One consequence of the rotation had been a large outperformance of bank stocks and underperformance of the healthcare sector during the month. This dynamic worked against the portfolio, in the short-term, as we hold a much smaller weighting in bank stocks compared to the stock market index.

Key contributors to Fund performance during the month included **Collins Food** (+16.0%), **City Chic** (+15.8%) and **Westpac** (+5.0%). Key detractors during the month included **Service Stream** (-8.7%), **Bravura** (-15.3%) and **CSL** (-3.0%).

We remain confident of generating superior Fund performance given the quality and prospects of the companies we are currently invested in. The Fund's health care exposures, CSL and Resmed, underperformed in September, following several quarters of very strong performance. The underperformance was attributable to the broad rotation from growth to value stocks we highlighted above. We remain comfortable holding our healthcare exposures as the growth prospects of both CSL and Resmed are strong. We note that CSL's share price, which fell 3.0% in September has started to recover strongly into the early part of October.

Overall, a number of our holdings, some of which we highlight in the contributors to Fund performance above, are performing well. These businesses are growing strongly but more importantly, they are investing for future growth. As shareholders, we expect to be beneficiaries of such investments for the future.

Service Stream (SSM) is a telco and utilities contractor with a steady but growing earnings base. SSM's share price has been softer in the past month but it comes after a period of strong share price performance. Investors have been somewhat concerned on SSM's dependence on the NBN, a major client, reaching the peak of its roll-out activities. We are less so. First, SSM has been diversifying its revenue stream over the last few years. SSM is a more diversified and better quality company targeting more avenues for growth. Second, the number of active NBN users is now sufficiently large that on-going maintenance on the NBN actually presents a larger opportunity for SSM as opposed to one-off NBN activation revenues. As the pool of active NBN users grow so will the opportunity for SSM's maintenance revenues.

Top Contributors (Absolute)	Sector
Collins Food	Consumer Discretionary
City Chic	Consumer Discretionary
Westpac	Financials
Top Detractors (Absolute)	Sector
Service Stream	Industrials
Bravura	IT
CSL	Healthcare

Platforms
Asgard, Ausmaq, Beacon, BT Wrap, First Wrap, Hub24, IOOF, Global One, Macquarie Wrap, Netwealth, Powerwrap, Symetry, Wealthtrac

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