

Prime Value Opportunities 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.
- The Australian share market posted a small 0.4% decline during the month, weighed by the banking sector
- The Fund rose 1.0% during the month, led by healthcare exposures CSL and Resmed. Pleasingly, fund performance was across a number of investments

	Total Return*	Benchmark (8% pa)	Value Add
Since inception (p.a.)	11.3%	8.0%	3.3%
5 Years (p.a.)	8.3%	8.0%	0.3%
3 Years (p.a.)	8.6%	8.0%	0.6%
2 Years (p.a.)	6.8%	8.0%	(1.2%)
1 Year	10.9%	8.0%	2.9%
3 Months	(1.2%)	2.0%	(3.2%)
1 Month	1.0%	0.7%	0.3%

* 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). 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.

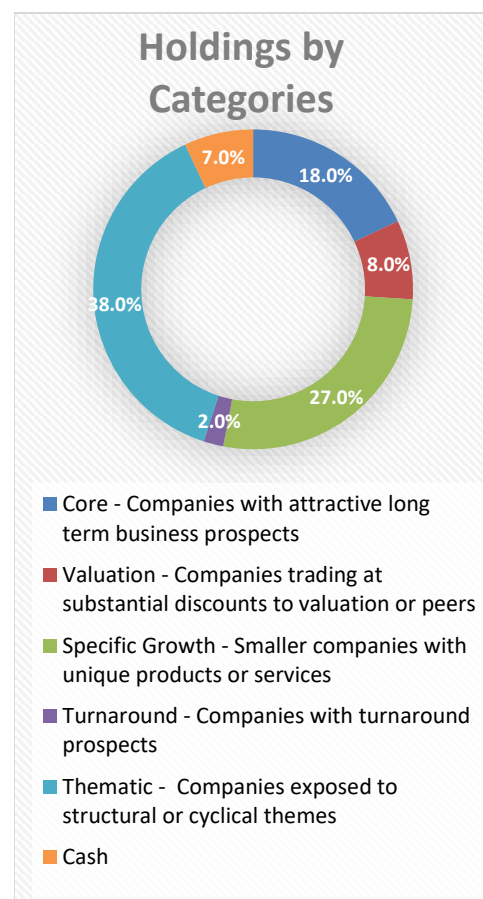
	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	FYTD	ITD
FY 2013					1.8%	1.7%	4.3%	6.2%	(0.6%)	4.0%	(2.2%)	(1.6%)	14.1%	14.1%
FY 2014	4.4%	2.6%	4.3%	5.0%	(1.1%)	1.5%	(1.9%)	5.9%	0.2%	0.3%	0.3%	(1.4%)	21.4%	38.5%
FY 2015	2.5%	1.0%	(4.1%)	3.1%	(1.9%)	0.7%	1.5%	5.7%	1.4%	(1.0%)	0.5%	(4.3%)	4.6%	44.9%
FY 2016	5.3%	(3.7%)	0.1%	5.5%	1.7%	2.4%	(3.4%)	(1.9%)	3.6%	2.3%	4.4%	(1.8%)	14.9%	66.5%
FY 2017	6.5%	(1.7%)	(0.5%)	(4.9%)	(0.2%)	2.7%	(1.1%)	2.4%	2.1%	1.3%	(1.2%)	1.2%	6.3%	77.0%
FY 2018	(1.2%)	1.0%	0.4%	4.2%	1.6%	0.4%	(0.2%)	2.5%	(2.5%)	3.0%	2.1%	2.4%	14.3%	102.4%
FY 2019	1.7%	2.6%	(1.9%)	(8.2%)	(1.9%)	(1.8%)	3.2%	3.4%	0.2%	2.9%	0.3%	2.6%	2.5%	107.5%
FY 2020	2.9%	(2.3%)	0.2%	1.0%									1.7%	111.0%

Top five holdings	Sector
CSL	Health Care
BHP	Materials
Westpac	Financials
Macquarie	Financials
Amcor	Materials

The top five holdings make up approximately 30.4% of the portfolio

Feature	Fund facts
Portfolio Manager	ST Wong
Investment Objective	To achieve superior absolute total returns by providing medium to long term capital growth without the constraints of a share market benchmark.
Benchmark	8.0% pa
Inception Date	5 November 2012
Cash	0 - 100%
International Exposure [#]	0 - 20%
Distributions	Half-yearly
Recommended Investment Period	3 + years
Research Rating	Zenith – Recommended Lonsec - Recommended

[#] The Prime Value SIV Opportunities Fund will have no exposure to international securities in accordance with SIV regulations



Market review

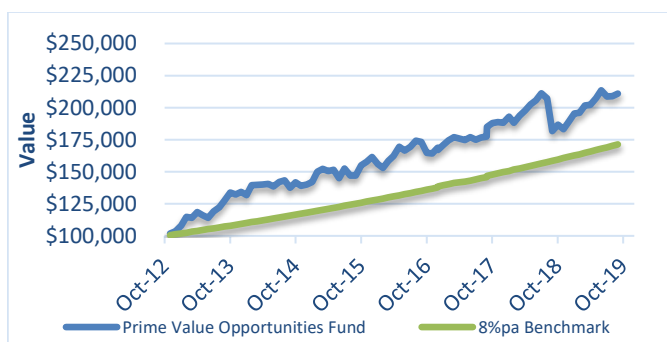
Australian indexes were relatively flat in October with the ASX300 -0.4% and the Small Ordinaries Accumulation Index -0.5%. Resources were softer than industrials as commodity prices fell moderately. The Small Resources Accumulation Index was -0.5% and the Small Industrials Accumulation Index was -0.5%.

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 an APEC Leaders Summit complicating the issue somewhat. The two nations 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 over the last two 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 \$211,000 (net of fees excluding performance fees). This compares very favourably with the return of the benchmark, where a \$100,000 investment would have increased to \$171,300 over the same period. The returns exclude the benefits of imputation credits.

	Direct Investment (Class A)	Platform Investment (Class B)
APIR code	PVA0005AU	PVA0006AU
Minimum Investment	\$20,000	N/A
Issue price	\$ 1.6879	\$ 1.6541
Withdrawal price	\$ 1.6751	\$ 1.6415
Distribution (30/06/2019)	\$ 0.0336	\$ 0.0335
Indirect Cost Ratio (ICR)*	0.95% p.a.	0.95% p.a.
Performance fee**	15%	15%

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

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Fund review and strategy

The Fund posted a 1% gain in October against the 0.4% decline posted by the ASX300 Accumulation Index. It's pleasing that the Fund posted a gain against the backdrop of a market decline which reinforces the downside protection offered by the Fund. Since the Fund's inception in 2012, the Australian market has posted 29 negative months. The Fund has outperformed the market in 22 of those 29 months or a high 76%.

Key contributors to Fund performance during the month included CSL (+9.6%), IDP Education (+14.3%) and Resmed (+7.2%). Key detractors during the month included Westpac (-4.8%), Evolution Mining (-8.8%) and NAB (-3.7%).

We commented about the Fund's healthcare exposures CSL and Resmed in the September fund update (as both had underperformed the market in September). Pleasingly both CSL and Resmed's reversed the share price underperformance from September—it's another reminder as to why it's important to focus on the longer term and ignore short term share price fluctuations. At CSL's 2019 AGM, management commented that demand for the company's plasma and therapies products are expected to continue to be strong and reiterated CSL's net profit after tax for FY20 to be in the region of US\$2.05bn to US\$2.11bn (in constant currency).

Resmed posted a very strong 1Q20 result that pointed toward strong market share gains in the company's mask division. The results further underlined good momentum across its world class medical device and consumables business. None of these successes would have been possible without a strong management team that is forward looking. Resmed has consistently allocated 7-8% of its annual revenue to R&D and is helping the company stay ahead of the competition.

Fund activity has been reasonably high this financial year. Most of the fund activities have centred in the small-mid cap sectors. Our focus has always been to look for companies that tend to have strong balance sheets, more experienced management teams and robust free cash flows streams to reinvest in the businesses or return to shareholders. We believe the Fund's more recent investments, including Baby Bunting, City Chic and IDP Education, has these characteristics. We expect these investments to be more agile, less bureaucratic and have a more entrepreneurial approach that can help push growth through faster decision making and execution. As a result, it's not a surprise to report that these companies have been gaining market share from its competitors.

Top contributors (absolute)	Sector
CSL	Healthcare
IDP Education	Consumer Discretionary
Resmed	Healthcare

Top detractors (absolute)	Sector
Evolution Mining	Materials
NAB	Financials
Westpac	Financials

Platforms
BT Wrap, Macquarie Wrap, Netwealth, Hub24, Powerwrap

Contact details:
 Brittany Shazell, Dora Grieve, Julie Abbott, Riza Crisostomo, Serena Shi & Daizi Zheng
 Client Services Team
 Phone: 03 9098 8088
 Email: info@primevalue.com.au
 Web: www.primevalue.com.au

Mail:
 Prime Value Asset Management Ltd
 Level 9, 34 Queen Street
 Melbourne VIC 3000