

Prime Value

Equity Income (Imputation) Fund

Fund Update – February 2020

- Share markets took a tumble towards the end of February as the coronavirus outbreak entered a new and more concerning phase
- We expect economic effects to be transitory as central banks and governments take action to head off softening economies

	Total Return*	Growth Return*	Distribution Return*	Total Return including Franking Credits**	S&P/ASX 300 Accumulation Index
Since inception (p.a.)	9.9%	4.8%	5.1%	11.9%	8.2%
10 Years (p.a.)	5.4%	1.1%	4.2%	7.5%	7.9%
5 Years (p.a.)	2.6%	(1.6%)	4.2%	4.5%	6.2%
3 Years (p.a.)	3.7%	(0.8%)	4.6%	5.8%	8.6%
1 Year	(1.3%)	(6.1%)	4.7%	0.5%	8.7%
3 Months	(7.2%)	(8.0%)	0.7%	(6.9%)	(5.2%)
1 Month	(8.1%)	(8.1%)	0%	(8.1%)	(7.8%)

* 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.

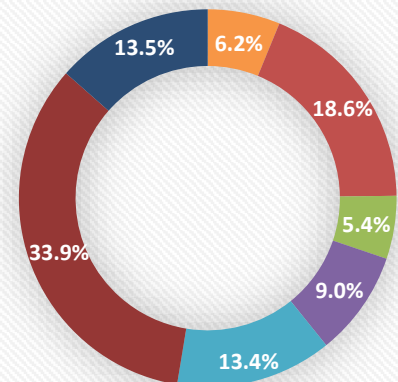
** Returns grossed up for franking credits are estimates.

Top five holdings	Sector
Commonwealth Bank	Financials
BHP	Materials
Macquarie Group	Financials
Goodman Group	Real Estate
National Australia Bank	Financials

The top five holdings make up approximately 33.1% 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

Fears of a global spread in COVID-19 dominated market moves in February, reflecting expectations for a significant slowdown in global growth. Global equity markets sold off sharply while bond yields continued to slide. Surprisingly, emerging market shares outperformed developed markets. Globally, Energy, Materials and Financials shares underperformed, while Communication Services, Health Care and REITs outperformed the most.

Safe haven currencies rose against the US Dollar. The Swiss Franc (+0.6%) and Japanese Yen (+0.3%) were the best performing currencies, while the New Zealand Dollar (-3.4%), Australian Dollar (-2.7%) and Norwegian Krone (-2.0%) were the worst performers. Bulk commodity prices were mixed in February. Iron ore fell \$0.50/t to \$84.50/t, but both thermal and metallurgical coal prices rose. Brent crude declined by US\$7.64/bbl to US\$50.52/bbl, the lowest since Dec-18. Gold prices rose again, up by US\$25.65/oz to \$1,609.85/oz, the highest since 2013.

The ASX300 Accumulation Index fell 7.8% in February, slightly better than Developed Market index average of -8.1%. By sector, Utilities (-3.6%), Health Care (-3.7%) & REITs (-4.9%) outperformed in Australia, while Information Technology (-17.3%), Energy (-17.2%) & Materials (-11.7%) underperformed the most. The Small Ordinaries Accumulation Index fell 8.7% during the month.

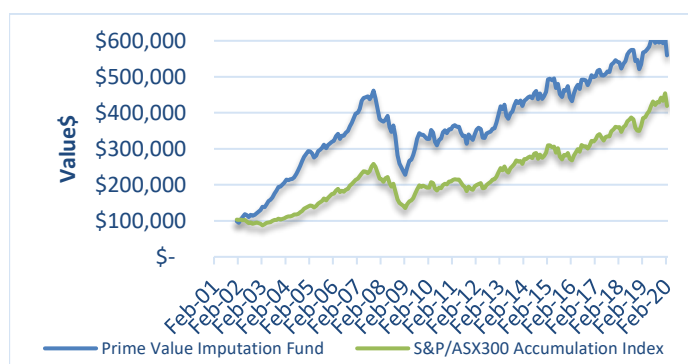
The evolving events surrounding the virus outbreak makes it difficult to estimate the shorter term economic impact, and is contributing to the market gyrations we are currently experiencing. But we believe the economic effects will be transitory. History is clear on this point.

Central banks have injected liquidity since the crisis unfolded. While share markets have the potential to remain volatile in the short term, we expect sentiment to improve as the disruption from the virus fades and economic activity rebounds, supported by government policy.

Over the past year, one of the key drivers of share market performance was the expansion of PE multiple resulting in market valuation at 16.5X, well above of the long-term average of 14.3X. The market consensus of “lower for longer” justified this elevated valuation. Came the unexpected virus from an initial China problem to a global one – the share market reacted violently. This is partly reflection of 1) challenge to investment assumption 2) worry about economy slowdown 3) individual company specifics.

- The Fed and RBA have already reduced interest rate - other than sentiments or political reasons, we are sceptical on how this might stimulate more economic activity (buy toilet paper!). After some 10% correction which partly reflects uncertainty from panic and fears, arguably the market is looking more attractive.
- The impact on economy - there is doom & gloom out there but there are too many unknowns. One thing we know is the economy is a lot more global now – trade, travel, manufacturing, supply-chain etc. Whilst we can close the border, we cannot protect the economy. Governments around the world are taking steps to mitigate the impact of a slowing economy.
- When the markets are gripped by fear and panic, investors lack confidence. Investor confidence will return at some point as many asset prices have been adjusted and cash alternatives do not offer much return. It would be a balance between “preserve capital” in the short term and “invest” for the long term

The February reporting season came and went, somehow overshadowed by anything Covid-19 as the market lap up news feed. From dividend capture perspective, we noted a number of companies kept some powder dry in this uncertain time by adopting a more conservative payout. Some even mentioned “the Board discussed whether it should trim dividend amid the uncertainty.....” We might get a bigger final dividend in August if things do not deteriorate too much. Another feature we witnessed was non-core divestments such as Wesfarmers sold some Coles, Viva Energy sold Viva REIT. These consumer facing companies continue to perform well in the midst of the current storm as they provide “everyday needs”. We look forward to some tax-effective distribution in due time.



This graph shows how \$100,000 invested at the Fund’s inception has increased to \$559,700 (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 \$418,900 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	\$2.3619	\$2.3631
Withdrawal price	\$2.3441	\$2.3453
Distribution (31/12/2019)	\$ 0.0350	\$ 0.0342
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

Top Contributors (Absolute)	Sector
Adairs	Consumer Discretionary
Goodman Group	Real Estate
Centuria Office REIT	Real Estate

Top Detractors (Absolute)	Sector
Woodside	Energy
Nine Entertainment	Communication Services
Macquarie Group	Financials

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

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