

Prime Value Cash Plus Fund

Fund Update – March 2020



By Matthew Lemke, Fund Manager

- The Fund experienced a -4.1% return (after fees) in March due to highly unusual market liquidity conditions. The coronavirus situation became a global pandemic, with a reasonably severe economic downturn now expected. The Fund unit price ended the 31 March quarter at \$0.9863, slightly below par \$1.00
- The normal quarterly distribution of 0.75 cents/unit for the March quarter is being paid; this distribution is expected to be maintained in ensuing quarters
- The Fund's PDS suggests investors invest for a minimum of 1 year and we fully expect the Fund to restore unit price levels over this horizon
- Please do not hesitate to call us if you have any questions at all as we are here to help and steward your capital

	Net Return*	Net Return including Franking Credits**	RBA Cash Rate
Since inception (p.a.)	2.70%	3.27%	1.65%
5 Years (p.a.)	2.54%	3.83%	1.52%
3 Years (p.a.)	1.78%	2.40%	1.32%
1 year	(0.89%)	(0.44%)	0.96%
3 Months	(4.22%)	(4.17%)	0.16%
1 Month	(4.07%)	(4.01%)	0.04%

* 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.

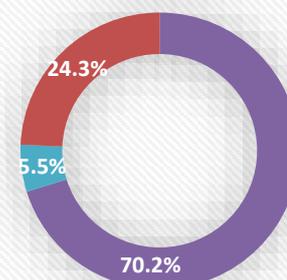
Major Holdings	Sector	Category
NAB	Banks	Wholesale Notes
Westpac	Banks	Wholesale Notes
CBA	Banks	Wholesale Notes
ANZ	Banks	Wholesale Notes
Bank of Queensland	Banks	Wholesale Notes

The top five holdings make up approximately 59.4% of the portfolio.

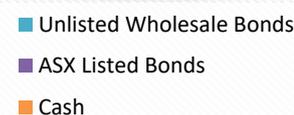
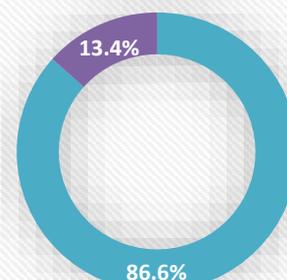
Feature	Fund Facts
APIR Code	PVA0009AU
Portfolio Manager	Matthew Lemke
Investment Objective	To provide regular income with low risk exposure. The Fund targets a return to investors in excess of the Reserve Bank of Australia's (RBA) cash rate with minimal risk of capital loss in the medium term.
Benchmark	RBA Cash Rate
Inception Date	3 June 2014
Interest Rate Reset Duration	Approx. 0.40 years
Distributions	Quarterly
Suggested Investment Period	1 + year
Minimum Investment	\$50,000
Indirect Cost Ratio (ICR)	0.60% ¹ p.a.
Issue price	\$0.9790
Withdrawal Price	\$0.9786
Distribution (31/03/20)	\$0.0075

¹ Unless otherwise stated, all fees quoted are inclusive of GST and less the relevant RITC

Holdings by Sector



Holdings by Category



Fund review and strategy

Due to the spread beyond China of coronavirus, and the consequent introduction of quarantining and “social distancing” measures that are widely expected to cause a reasonably severe economic downturn, markets suffered massive price falls and illiquidity all in the space of 1-2 weeks in March. In my 38 years of experience in investment markets, I have not seen such precipitous falls as investors panicked to sell almost at “any price available”. The Fund has 20 tradable debt securities in its portfolio and so was caught up in the price falls. However, fortunately, the Fund only experienced a 4% fall.

The Fund is in a good liquid position, and for the March quarter the Fund will pay its normal quarterly distribution of 0.75 cents/unit. This distribution is expected to be paid as per normal in ensuing quarters as well. Part of the reason for this consistency is that all securities in the Fund portfolio pay a known and defined income. They are not subject to discretion by the issuer of the security, such as occurs with respect to dividends on ordinary shares. We therefore expect to maintain income distribution from the Fund as per normal distributions in the past.

The Fund unit price ended the 31 March quarter at \$0.9863 slightly below par of \$1.00. Although some investors purchased units at a level above \$1.00, the margin above \$1.00 was the premium earned by the Fund over time for exceeding its return benchmark.

The coronavirus pandemic was completely unexpected and could not be foreseen. Market conditions deteriorated rapidly within a single week in March not allowing for any mitigating actions to be taken by the Fund.

Exacerbating the coronavirus situation was the large fall in crude oil prices as Saudi Arabia and Russia disagreed on crude supply levels, jeopardising the future of OPEC+ with possible significant geo-political ramifications.

The main issue causing the fall in prices of securities in the Fund’s portfolio was the extreme illiquidity as investors panicked in a random way, producing ever-lower prices in the illiquid conditions. The prices now bear no relationship to the fundamental valuation of the portfolio securities. We fully expect the security values to move higher over time. There is no default in the portfolio. The portfolio is 96%-invested in debt securities issued by banks/financial institutions - these securities have specific maturity/call dates so will repay the capital. Hence, we are strongly confident security prices in the portfolio will move higher not just as the market attributes their true value but also as the maturity/ call dates approach which will naturally raise the security prices back to par values. Also to mention the Government and RBA support measures that have been instigated which will help banks in Australia and serve to prevent further security price deterioration. We could however see some price volatility in the next month or two until markets settle down.

Government support packages in Australia and around the world are highly conducive to supporting businesses, the economies and this will support security values of Fund investments over time.

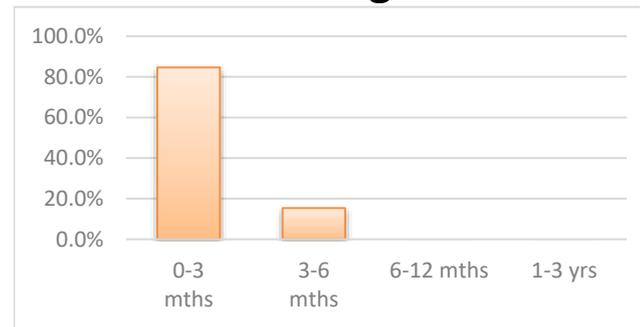
Securities in the portfolio are in the nature of debt and will repay at the stated maturity/call dates given the investment grade quality of the entities issuing the securities. Hence, unit price restoration back to \$1.00 and above is highly probable. This will also occur once quarantining measures are seen to be effective to reduce the spread of coronavirus, and also upon the discovery of a coronavirus vaccine.

The PDS suggests investors invest for a minimum of 1 year. We fully expect the Fund to restore unit price levels above \$1.00 over this horizon. We ask investors to keep this in mind in terms of how they view their investments in the Fund - although the Fund unit price has been extremely stable since Fund inception in 2014, daily, monthly or quarterly variations are quite possible in the highly-charged and unstable market conditions that currently exist.

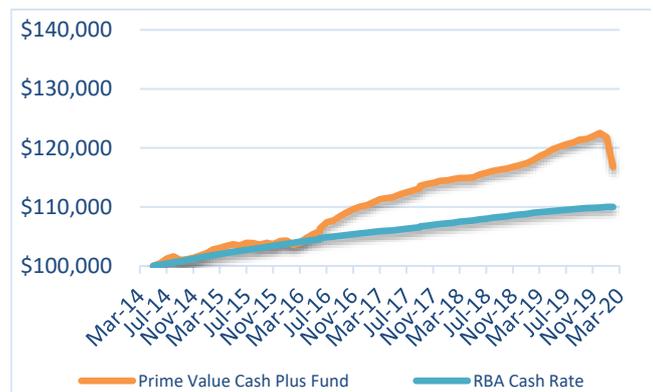
We are actively managing the Fund portfolio as circumstances allow to reduce risk given the timeframe for resolution of the coronavirus pandemic is unknown at this point in time. To this end, we are building up the cash reserve, reducing Fund exposure to the more volatile ASX-listed debt securities (now down to 13.5%), and have only 4% of exposure to corporate debt securities.

We sincerely wish all our investors, friends, family and associates, a safe period ahead. Please call us if you have any questions as we are here to steward your money through this difficult period.

Interest Rate Reset Management



The Fund’s portfolio weighted average interest rate reset duration is approximately 0.40 years. The majority of interest rates are reset every quarter. Securities with interest rates reset every quarter are not exposed to the risk of interest rate increases, unlike fixed rate investments.



This graph shows how \$100,000 invested at the Fund’s inception has increased to \$116,800 (net of fees). This compares with the return of the RBA cash rate, where a \$100,000 investment would have increased to \$110,000 over the same period.

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