

Prime Value Emerging Opportunities Fund Update – March 2020



- Share markets experienced one of their fastest declines on record in March as Coronavirus spread globally and governments enacted movement restrictions that is severely impacting economic growth.
- The Emerging Opportunities Fund return in March was -19.1%, 3.3% better than Small Ordinaries Accumulation Index return of -22.4%. Reporting negative returns is never pleasing, however it is important to note the fund is outperforming the index across all key time periods since inception (1, 3 & 6 months, 1, 2, 3 & 4 years). Additionally returns in April to date have been strong.

	Total Return*	Benchmark (8% pa)	Value Add
Since Inception (p.a.)	6.2%	8.0%	(1.7%)
3 Years (p.a.)	3.5%	8.0%	(4.5%)
2 Years (p.a.)	0.1%	8.0%	(7.9%)
1 Year	(6.4%)	8.0%	(14.4%)
3 Months	(22.4%)	1.9%	(24.3%)
1 Month	(19.1%)	0.7%	(19.7%)

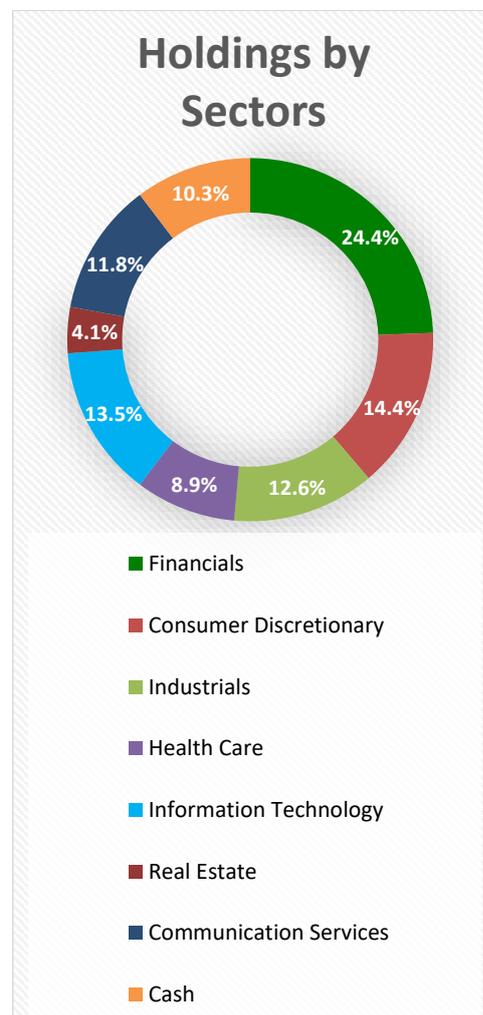
* Fund returns are calculated net of management fees and performance fees assuming all distributions are re-invested. Performance figures have been calculated in accordance with the Financial Services Council (FSC) standards. The returns exclude the benefits of imputation credits. Past performance is not necessarily an indicator of future performance.

	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	FYTD	ITD
FY 2016					6.3%	0.7%	(0.2%)	(3.9%)	2.4%	3.3%	2.4%	(0.2%)	13.8%	13.8%
FY 2017	7.4%	2.5%	1.6%	(0.3%)	(6.0%)	(2.0%)	1.1%	(1.6%)	1.8%	(1.8%)	(1.2%)	2.5%	3.4%	17.6%
FY 2018	1.3%	1.8%	2.3%	2.7%	1.5%	3.9%	(0.8%)	0.6%	(2.2%)	(0.5%)	3.9%	3.4%	19.0%	40.0%
FY 2019	(0.8%)	2.9%	2.1%	(4.8%)	(2.0%)	(5.8%)	1.5%	5.8%	1.9%	2.7%	(1.0%)	(0.6%)	1.2%	41.7%
FY 2020	5.3%	2.0%	1.5%	4.5%	4.2%	0.5%	1.9%	(5.8%)	(19.1%)				(7.4%)	31.2%

Top five holdings	Sector
Chorus Limited	Communication Services
Fisher & Paykel	Health Care
EQT Holdings	Financials
Mainfreight	Industrials
News Corporation	Communication Services

* The top five holdings make up approximately 22.4% of the portfolio

Feature	Fund facts
Portfolio Manager	Richard Ivers
Investment objective	Achieve superior total returns by providing medium to long term capital growth by investing in smaller capitalisation companies.
Benchmark	8% p.a.
Inception date	8 October 2015
Typical number of stocks	25-50
Cash	0 - 100%
Unlisted Exposure	0 – 20%
International Exposure	0 – 20%
Distributions	Half-yearly
Suggested Investment Period	3 + years



Market review

March saw the swiftest share market falls on record. Global shares, as measured by the MSCI Developed Market Index in local currency terms, fell -12.8% and into bear market territory during the month. However, with some Chinese economic indicators starting to improve as China began returning to normal, its share market performed better than most, falling only -4.5%. The tech-heavy NASDAQ Index (-9.0%) was another outperformer as some of its constituents are likely to see a net positive impact of more people working from home.

Australia recorded some of the largest losses with the S&P/ASX300 Accumulation index down 20.8% for the month. The Small Ords Index fell a larger -22.4% as investors sought the greater liquidity in large cap companies.

The three-pronged fight against COVID-19 and its economic impact continues. Central banks are providing monetary policy support to keep banks and markets functioning, national governments are providing fiscal policy support to consumers and businesses, and governments at all levels are taking public health policy steps to contain the spread of the virus.

Current market prices are reflecting the near-term effects of the coronavirus and the oil price war that had begun between OPEC members. Without a doubt the effect of the coronavirus on near-term growth and corporate earnings is going to be negative. That said, it is important to remember that this effect is one of disruption, not damage. The financial system is intact. Global production capacity is likewise in good shape. Production has been halted for a while, the flow of goods has been interrupted, and demand for them is temporarily suppressed. But the production capacity remains in place to fill demand when it revives.

Markets like this have been very rare, arriving only every decade or so. This crisis, like those before it, has thrown up opportunities in our view to buy strong franchises at extraordinarily attractive prices.



This graph shows how \$100,000 invested at the Fund's Inception has increased to \$131,200 (net of fees). This compares with the return of the benchmark, where a \$100,000 investment would have increased to \$141,200 over the same period. The returns exclude the benefits of imputation credits.

	Direct Investment
APIR Code	PVA0013AU
Minimum Investment	\$20,000
Issue price	\$1.2102
Withdrawal price	\$1.2006
Distribution (31/12/2019)	\$0.0400
Indirect Cost Ratio (ICR)	1.25%*
Performance fee	20%** p.a.

* 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 positive performance

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Fund review & strategy

The fund's return was -19.1% in March. Key positive contributors were **Fisher Paykel** (FPH +17.3%), **oOh! Media** (OML -72.0%), and **Hotel Property Investments** (HPI -32.2%). Note percentages in brackets show monthly returns for the stock. OML & HPI delivered significant positive returns for the fund as we purchased these companies at/near their lows during the month. Key detractors were **Pinnacle** (PNI -45.9%), **EQT Holdings** (EQT -25.8%) and **Australian Finance Group** (AFG -47.1%).

There was significant change to the portfolio during March. The cash weighting reduced from 15% to 10% and the quality of the portfolio increased. Amongst significant share price volatility, many higher quality companies fell as much as lower quality. Higher quality businesses will be far more resilient in tough economic times so we took advantage of this opportunity to upgrade the portfolio. Many of these businesses were purchased at levels 30% or more below their price just two months ago yet have strong competitive positions with economically resilient products. We expect these purchases will set the fund up for solid returns over coming years.

In framing our strategy during the current period, we split companies into three main buckets;

1. Beneficiaries or largely unaffected by the Coronavirus. New positions were established after large falls (eg Austal, IPH) or existing positions that significantly outperformed are being used as funding sources (eg Fisher Paykel Healthcare, Chorus).
2. Economically resilient companies materially impacted by government restrictions on human behaviour (eg Bapcor, Collins Foods, Auckland Airport). We have a relatively high level of certainty these restrictions will be lifted, likely in the short term given infection rates are declining. We see this as a particularly attractive pool of opportunities as revenue will quickly rebound with less dependence on economic outlook. We have been actively buying after large falls.
3. Cyclical businesses that are significantly influenced by the economic cycle. The economic outlook is highly uncertain so our exposure to this bucket is relatively small. However we have been taking small positions through heavily discounted capital raisings of quality cyclical's that shore up their balance sheet for a prolonged period of weakness (eg oOh! Media, Southern Cross Media). These can be particularly lucrative as the economy rebounds.

Few if any can accurately call the bottom of markets However it is important to note that markets are forward looking and it appears reasonable that in 1-2 years a vaccine will be widely available and our lives will have largely returned to normal. If this eventuates it is likely markets will be significantly higher and we will look back on this period as a fantastic buying opportunity.

Top Contributors (Absolute)	Sector
Fisher & Paykel	Health Care
oOh! Media	Communication Services
Hotel Property Investments	Real Estate
Top Detractors (Absolute)	Sector
Pinnacle Investments	Financials
EQT Holdings	Financials
Australian Finance Group	Financials