

# Prime Value Growth Fund

## Fund Update – March 2020



- Equities sold off aggressively in March as investors de-risked portfolios due to the rapid acceleration in global COVID-19 cases
- A three-pronged calibrated effort against COVID-19 and to mitigate economic impact continues through health, monetary and fiscal policies
- We moved to protect the Fund's capital in late February, in anticipation of market disruptions, mitigating declines
- Markets like this have been very rare. This one, like those before it, has thrown up opportunities to invest in strong businesses at extraordinarily attractive prices

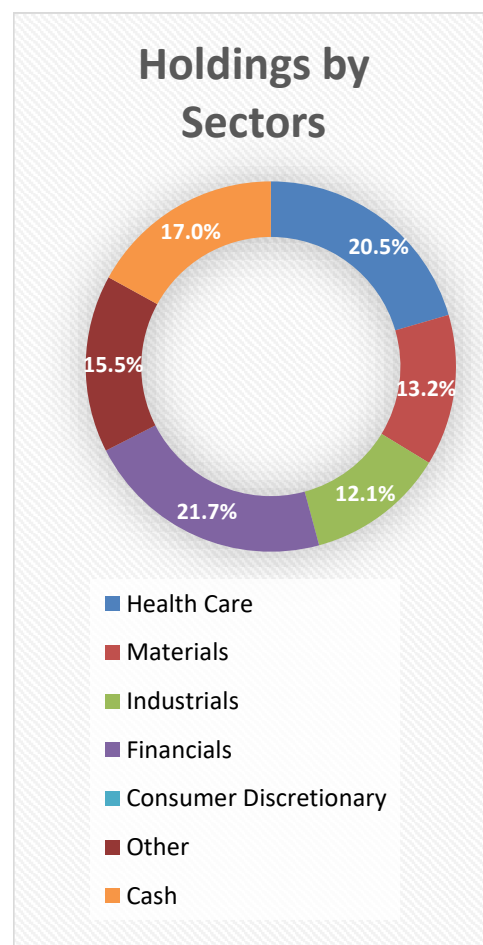
	Total Return*	S&P/ASX 300 Accumulation Index	Value Add
Since Inception (p.a.)	9.5%	7.1%	2.5%
5 Years (p.a.)	(3.2%)	1.4%	(4.6%)
3 Years (p.a.)	(4.6%)	(0.6%)	(4.0%)
1 Year	(18.2%)	(14.5%)	(3.7%)
3 Months	(21.6%)	(23.4%)	1.8%
1 Month	(19.6%)	(20.8%)	1.2%

\*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

Top five holdings	Sector
Commonwealth	Financials
CSL	Health Care
BHP	Materials
Fisher & Paykel	Health Care
Resmed	Health Care

The top five holdings make up approximately 38% 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
Suggested Investment Period	3 + years



performance is not necessarily an indicator of future performance.

## Market review

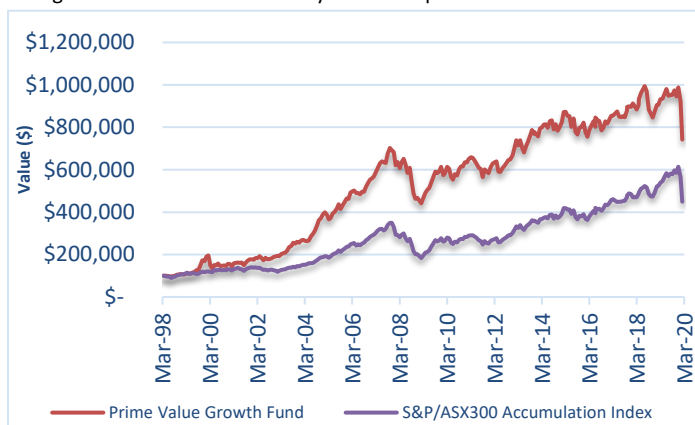
March saw the swiftest share market falls on record. Global shares, as measured by the MSCI Developed Market Index in local currency terms, fell -12.8% and into bear market territory during the month. However, with some Chinese economic indicators starting to improve as China began returning to normal, 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 \$741,300 (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 \$448,400 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	\$1.3526	\$1.3477
Withdrawal price	\$1.3424	\$1.3375
Distribution (31/12/2019)	\$ 0.1000	\$ 0.1003
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 March quarter has been extremely challenging with the Fund falling 21.6%. We are always disappointed when the absolute value of the Fund declines even though we have mitigated Fund declines as compared to the ASX300 Accumulation's fall of 23.4% during the March quarter.

Given the fast moving developments in markets, we moved to manage the portfolio for capital protection in late February. The possibility of a recession in Australia, and elsewhere, had risen by early March. Hence, ahead of such a scenario, we have worked to increase the robustness of the portfolio. The portfolio's cash position rose to 20% in early March although we exited the end of March holding 17% in cash.

We have managed our exposures to industries that are most vulnerable to the current crisis – we reduced our holdings in airlines or travel related companies and trimmed our financial services and consumer related holdings significantly.

We hold meaningful investments in businesses that are likely to prove resilient in this environment such as the three healthcare companies: **CSL**, a global manufacturer of healthcare products to treat serious human conditions, **Resmed**, a global manufacturer of sleep apnoea medical devices and **Fisher & Paykel Health**, whose respiratory products are used in the treatment of COVID-19.

Some of our investments face a more challenging outlook over the next 3 to 6 months. For example, Collins Food, the KFC store owner, and Baby Bunting are facing challenges as the nation shuts down. We have been managing our positions down to 1% ahead of the more restrictive movement orders. Post this slump in demand, however, these businesses should recover strongly and prove defensive in the face of an economic downturn. Needless to say, we are monitoring these investments closely given the unusual nature of this situation, which will severely impact their businesses over the next 3 to 6 months. These are solid businesses, they are likely to rebound when the virus passes.

We are already looking ahead and are well positioned to redeploy capital to sold off areas of the market – we have identified companies that are well positioned for the difficult economic pathway ahead and have made investments. Much has been written about potential discounted capital raisings to come as companies seek funding bridge the economic gap. We expect to be very selective participants in these raisings, driven by a clear framework that will see us gravitate to companies are led by strong management teams, uninhibited by large debt or cash flow issues but are well positioned due to long term structural themes. IDP Education is an example of a company that fits a number of characteristics we look for, prompting us to rebuild a position in the company.

Top Contributors (Absolute)	Sector
Fisher & Paykel	Health Care
Resmed	Health Care
Northern Star	Materials
Top Detractors (Absolute)	Sector
Commonwealth Bank	Financials
ANZ	Financials
Macquarie	Financials

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

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