

## Prime Value Income Investor Update



The Cash Plus Fund and the Diversified High Yield Fund are both registering relatively small losses so far this month. The monthly loss, particularly the Diversified Fund, are significantly less than other markets. The loss this month by the Cash Plus Fund is one of the very few monthly losses ever recorded since its inception in April 2014. The monthly loss for the Diversified Fund is the only loss recorded since its inception in August 2019. The Cash Plus Fund will pay distribution this quarter as scheduled and the Diversified High Yield Fund will pay monthly distribution as per normal.

Both Funds are invested in prime debt securities issued by creditworthy borrowers. All debt securities in Australia and around the world have been marked lower in their market prices not due to problems in the underlying value of the securities, but moreover the extremely illiquid trading conditions which have been characterised by panic-selling in thin trading conditions which has forced prices of the debt securities lower, and below their fundamental value. In this regard, the Reserve Bank of Australia commented last week that “Government bond yields have declined to historic lows. However, the functioning of major government bond markets has been impaired, which has disrupted other markets given their important role as a financial benchmark”.

***We believe the debt securities that we own are fundamentally good assets and will recover in price once the coronavirus stops spreading and/or a vaccine is found. Both the Cash Plus Fund and the Diversified Yield Fund have been receiving inflows and redeeming investor money as requests occur throughout the pandemic crisis, so it has been more or less “business as usual” for both Funds.***

Our strategy during the past 1-2 months, is to continue to retain securities and only lighten securities very selectively in small amounts where that makes sense. This is because we believe the fundamental value of the debt securities in both Funds will be restored over time. Neither Fund is taking positions in the market as we consider this to be too risky, although there will come a point when adding securities at these very high yield levels available in the market due to the price falls, makes sense. Both Funds are strictly adhering to their investment mandates and investors can rest assured the Funds are in full compliance.



Matthew Lemke

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