Prime Value Diversified High Yield Fund
Fund Update – May 2020

By Matthew Lemke, Fund Manager

- The Fund performed well in May with a return for the month of 0.19% and continue to pay its distributions of 0.42 cents per unit.
- The Fund's investment portfolio is robust and no strategic re-allocations were made in May with the only major investment activity being the investment in mortgage assets as new Fund inflows occurred
- Market risks are still very real, and the investment portfolio is being managed carefully and prudently
- The Fund is expected to meet its benchmark annual return net of fees of the RBA official cash rate plus 4.0%, with a target annual return net of fees of ca. 5.0%. Increased portfolio allocations to cash in the last 3 months will only temporarily affect the Fund's returns

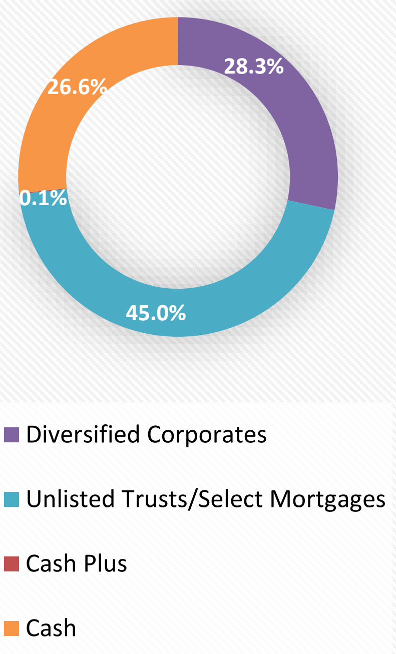
	Net Return*	Benchmark (RBA +4% p.a.)
10 Months (Since inception)	**3.42%**	3.86%
6 Months	**1.65%**	2.24%
3 Months	**0.36%**	1.06%
1 Month	**0.19%**	0.33%

* 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.

Feature	Fund Facts
Portfolio Manager	Matthew Lemke
Investment Objective	The Fund targets a return to investors of 4.0% p.a. over the RBA official cash rate. This return may vary from month to month depending on the market and as funds are invested.
Benchmark	RBA Cash Rate + 4%
Inception Date	1 August 2019
Distributions	Monthly
Suggested Investment Period	1-2 years
Individual Security Maximum Exposure	The maximum exposure to any individual security is generally 25% of the portfolio. We expect any individual security holding to be generally under 15% of the portfolio; however where the Fund's portfolio manager identifies a good investment, and believes it is in the best interest of investors to hold more than 15% of the portfolio in this security, a higher 25% threshold is available.
Minimum Investment	$50,000
Management Fee	0.85%[1] p.a.
Performance Fee	15% of net performance above the RBA Cash Rate + 4% p.a
Issue price	$0.9922
Withdrawal Price	$0.9912
Distribution (31/05/20)	$0.0042

1 The Fund may hold one or more unlisted trusts. We estimate that the Fund's estimated proportion of management fees charged to such unlisted trust(s) is 0.24% pa (indirect cost). The above 0.85% pa management fee excludes this indirect cost.

Holdings by Industry Sectors



Fund review and strategy

The Fund performed well in May with a return for the month of 0.19%. Investors will appreciate that we have moved some of the investments to very 'low yielding cash' in the wake of the very abnormal conditions that exist at the present time. We would expect the fund returns to move higher once markets settle down and we move cash back into the market.

The Fund will pay its normal 0.42 cents per unit distribution at the start of June for the month of May.

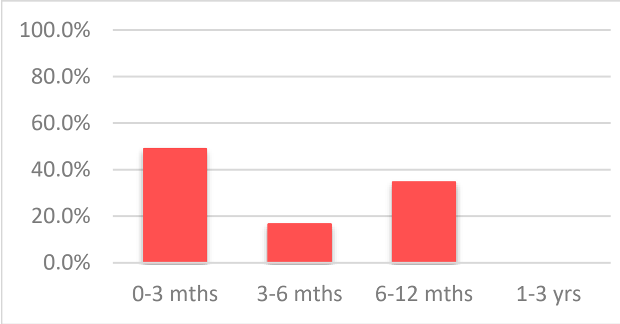
The Fund has been able to perform well over the past few months despite the meltdown in markets seen in March. There were no major strategic asset re-allocations made to the investment portfolio in May. With new fund inflows, two secure mortgage assets were added to the investment portfolio.

Although market indicators for risk have fallen, we are still wary of the coronavirus situation, the global economic situation and pending recessions in various countries, and the considerable risks that can re-ignite market volatility. The main risks facing markets are inter-related, and summarised as follows:

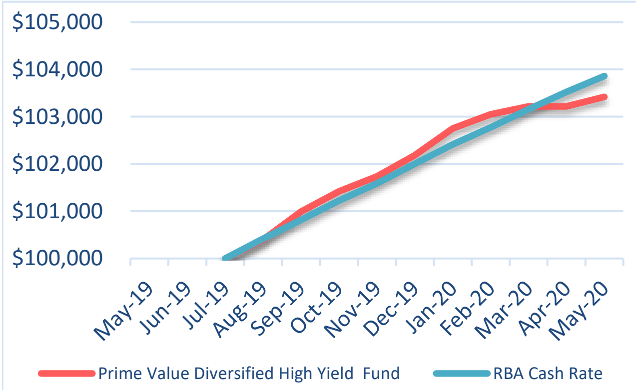
1. **Lockdowns**: Although the growth rate of coronavirus cases and deaths has decreased in China, Europe and US, the potential for delays in the relaxation of lockdowns, or a coronavirus second wave if lockdowns are relaxed too soon, with no vaccine yet found, will bring economic and market risks. A delay in lockdown relaxation will cause the economic situation to deteriorate having market impacts. A coronavirus second wave would be far more difficult to manage than the first wave in that public receptivity to lockdowns will be tested due to employment and income concerns, forcing difficult political decisions;
2. **Australia coronavirus situation:** The potential for a pick-up in Australia of the incidence of coronavirus cases and deaths is a risk, although incidence in Australia has been very low to date. Any pick-up in coronavirus cases will potentially impact the way the Australian economy re-opens and the speed with which the JobKeeper payments are phased out from September as indicated by the Federal Government, both of which will affect the Australian employment situation and the fiscal/ budget situation at the Federal and State level;
3. **Civic unrest in the US**: The growing civic unrest in the US is causing destabilisation and falling confidence in the US political situation and its public institutions which is crucially important given the importance of the US in the global economy and its strategic influence. This unrest has not yet surfaced into markets in terms of price volatility or withdrawal of liquidity. It is however further evidence of the process of political polarisation in the US. Mainstream media is also becoming more polarised. These developments are potential risks to the market especially as the US heads into the presidential election in November which will heighten the risk as political positions will become more visibly polarised. The agendas of the Democrats and the Republicans in this election are diametrically opposed with strong rhetoric on both sides. Each party is trying to make political gains in ways that may affect markets; and
4. **Developing/ Emerging markets**: The incidence of coronavirus is very high across South America, the entire Indian sub-continent, and Central Asia particularly Russia. Any debt default, or heightened risk of default, in these countries can have direct flow-through effects to major markets due to the banking and trade connections.

We expect the Fund to meet its *benchmark* annual return net of fees of the RBA official cash rate plus 4.0%, with a *target* annual return net of fees of ca. 5.0%, and to continue to pay a monthly cash distribution of 0.42 cents per unit which it has done since inception in August 2019. If markets deteriorate, the Fund may allocate more of its investment portfolio to cash, temporarily reducing the portfolio return but with mitigated market risk.

Interest Rate Reset Management



The Fund's portfolio weighted average interest rate reset duration is approximately 0.32 years. The majority of interest rates in the portfolio are reset on average every 3-6 months.



This graph shows how $100,000 invested at the Fund's inception has increased to $103,420 (net of fees). This compares with the return of the RBA cash rate +4% p.a., where a $100,000 investment would have increased to $103,860 over the same period.

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