

# Prime Value Opportunities Fund

## Fund Update – May 2020



- Equity markets rallied for a second consecutive month as the number of new CV19 cases globally declined. In addition, economic activity has been improving week-on-week across most sectors through May
- Australia has emerged from the crisis earlier than expected, a key reason driving the ASX300 Accumulation Index higher by 4.6% and the Small Ordinaries Index by 10.5%
- The Fund posted a 5.4% gain during the month, building on a solid recovery in the previous month (+8.0%)

	Total Return*	Benchmark (8% pa)	Value Add
Since inception (p.a.)	9.5%	8.0%	1.5%
7 Years (p.a.)	8.0%	8.0%	0.0%
5 Years (p.a.)	5.6%	8.0%	(2.4%)
3 Years (p.a.)	4.4%	8.0%	(3.6%)
1 Year	(1.5%)	8.0%	(9.5%)
3 Months	(5.3%)	1.9%	(7.2%)
1 Month	5.4%	0.6%	4.8%

\* 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). The returns are calculated before performance fees which are charged against individual accounts. The returns exclude the benefits of imputation credits. Past performance is not necessarily an indicator of future performance.

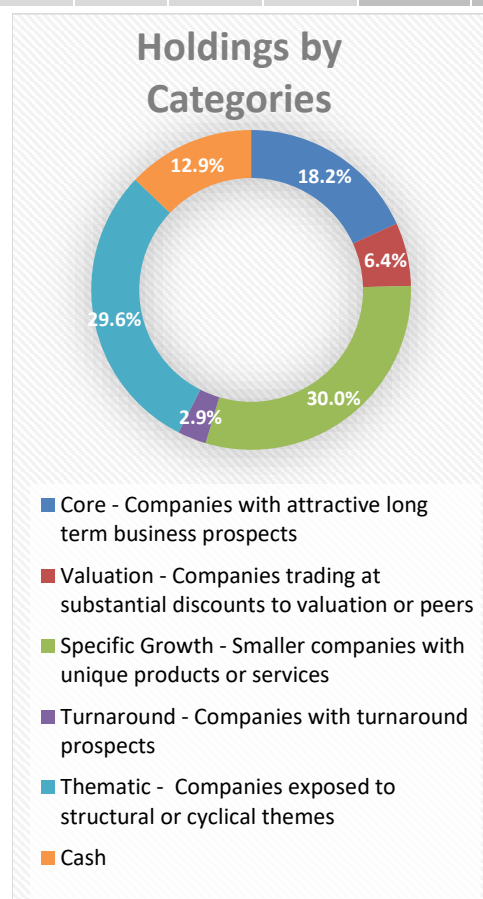
	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	FYTD	ITD
FY 2013					1.8%	1.7%	4.3%	6.2%	(0.6%)	4.0%	(2.2%)	(1.6%)	14.1%	14.1%
FY 2014	4.4%	2.6%	4.3%	5.0%	(1.1%)	1.5%	(1.9%)	5.9%	0.2%	0.3%	0.3%	(1.4%)	21.4%	38.5%
FY 2015	2.5%	1.0%	(4.1%)	3.1%	(1.9%)	0.7%	1.5%	5.7%	1.4%	(1.0%)	0.5%	(4.3%)	4.6%	44.9%
FY 2016	5.3%	(3.7%)	0.1%	5.5%	1.7%	2.4%	(3.4%)	(1.9%)	3.6%	2.3%	4.4%	(1.8%)	14.9%	66.5%
FY 2017	6.5%	(1.7%)	(0.5%)	(4.9%)	(0.2%)	2.7%	(1.1%)	2.4%	2.1%	1.3%	(1.2%)	1.2%	6.3%	77.0%
FY 2018	(1.2%)	1.0%	0.4%	4.2%	1.6%	0.4%	(0.2%)	2.5%	(2.5%)	3.0%	2.1%	2.4%	14.3%	102.4%
FY 2019	1.7%	2.6%	(1.9%)	(8.2%)	(1.9%)	(1.8%)	3.2%	3.4%	0.2%	2.9%	0.3%	2.6%	2.5%	107.5%
FY 2020	2.9%	(2.3%)	0.2%	1.0%	3.0%	(2.0%)	4.9%	(5.8%)	(16.8%)	8.0%	5.4%		(4.0%)	74.8%

Top five holdings	Sector
CSL	Health Care
BHP	Materials
Commonwealth Bank	Financials
Ancor	Materials
Macquarie Group	Financials

The top five holdings make up approximately 27.1% of the portfolio

Feature	Fund facts
Portfolio Manager	ST Wong
Investment Objective	To achieve superior absolute total returns by providing medium to long term capital growth without the constraints of a share market benchmark.
Benchmark	8.0% pa
Inception Date	5 November 2012
Cash	0 - 100%
International Exposure <sup>#</sup>	0 - 20%
Distributions	Half-yearly
Suggested Investment Period	3 + years
Research Rating	Zenith – Recommended Lonsec - Recommended

<sup>#</sup> The Prime Value SIV Opportunities Fund will have no exposure to international securities in accordance with SIV regulations

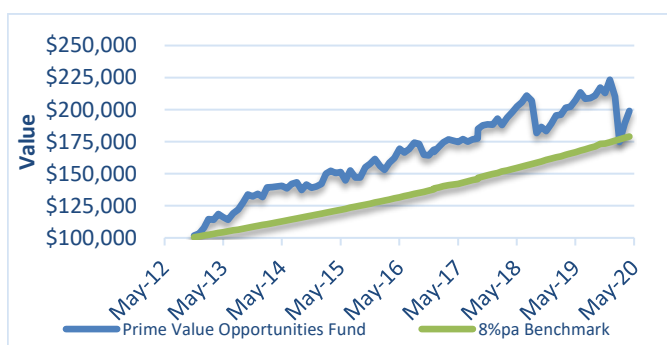


## Market review

Rising confidence in government stimulus and a continued easing of lockdown measures saw global markets rally again in May. US stocks rallied throughout May, buoyed by optimism over hopes of a reopening of the economy and easing restrictions, with the S&P 500 Index bouncing 36% off its late March lows, and now just 10% below the record high set in February. Key global commodity prices staged a recovery in May. Brent oil prices rose a solid US\$10.06/bbl to US\$35.33/bbl in May, partly driven by the improving global outlook and the lower US Dollar. Iron ore prices also increased substantially, breaching the US\$100/t level for the first time in almost a year. The rise in iron ore prices was driven by a combination of robust demand and supply constraints in Brazil. Spot gold finished the month up 2.6%, closing at US\$1730.27/oz and surpassing the highest level since October 2012, which was set just last month.

Australian equities also rallied steadily throughout May. The Australian market has rebounded approximately 31% since the March 23 low and remains about 20% below the February high. Gains have been driven by multiple expansion, as investors react to stimulus and position for the recovery in activity as the economy emerges from hibernation. We observe that recent trading updates from a range of listed companies showed that the impact on profits has not been as bad as feared. As a result, companies within the finance (including banks), industrial and consumer discretionary sectors (especially small companies) could see earnings expectations revised upwards, and not down, when judged against overly pessimistic forecasts.

The Information Technology sector was the best performing sector over the month, rallying 14.5%, whilst Communication Services increased 8.4%. Health Care and Consumer Staples were the only sectors to close May in the negative, declining 5.3% and 0.4% respectively. For the month of May, the S&P/ASX Small Ordinaries rallied 10.5%, outperforming the S&P/ASX300 Accumulation Index's gain of 4.8%.



This graph shows how \$100,000 invested at the Fund's Inception has increased to \$199,100 (net of fees excluding performance fees). This compares very favourably with the return of the benchmark, where a \$100,000 investment would have increased to \$179,000 over the same period. The returns exclude the benefits of imputation credits.

	Direct Investment (Class A)	Platform Investment (Class B)
APIR code	PVA0005AU	PVA0006AU
Minimum Investment	\$20,000	N/A
Issue price	\$ 1.5600	\$ 1.5287
Withdrawal price	\$ 1.5482	\$ 1.5171
Distribution (31/12/2019)	\$ 0.0350	\$ 0.0342
Indirect Cost Ratio (ICR)*	0.95% p.a.	0.95% p.a.
Performance fee**	15%	15%

\* 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 a high water mark

## Fund review and strategy

The Fund posted a gain of 5.4% in May and continues to recover well from its trough. The Fund has recovered approximately 28% from its low in late March, and is 15% below the Fund's peak in late February this year. Consistent with Prime Value's capital preservation philosophy, the Fund has displayed a significantly stronger outperformance during falling market conditions—this was clearly demonstrated by the Fund's performance through the challenging months of February and March this year. Pleasingly, the Fund's performance has kept up well relatively to what has been an extraordinary share market rebound in both April and May. We believed the following factors contributed to the Fund participating well in market rebound: (1) Good stock selection added value; (2) Fund did not swing to an extreme defensive position; (3) Successful deployment of cash to undervalued assets.

The top contributors to performance in May included investments that have very solid balance sheets but were sold-off aggressively in the preceding months: **Breville** (27.3%), **Goodman Group** (16.9%) and **BHP** (7.1%). The top detractors from performance in May were positions that could be classed as "defensive" stocks: **CSL** (-10.7%), **A2 Milk** (-2.8%) and **Technology One** (-3.8%)—all three companies have performed exceedingly well through the crisis.

Goodman Group is one of the best positioned companies through this CV19 crisis. In an early May update Goodman's management referenced an increase in demand for both temporary and permanent industrial space as e-commerce and pantry stocking accelerated. Medium-term structural tailwinds such as ecommerce, data usage and higher inventory levels have accelerated according to the Goodman's management. Discussions with capital partners remains robust towards prime assets. As a result, the group reaffirmed its FY20 EPS and DPS guidance of 57.3cps and 30.0cps, respectively.

Over the next few months we expect to build on our extensive contacts with company management as the economy recovers on the back of significant government stimulus. We expect to uncover some outstanding opportunities as there will be potentially large winners and losers from the economic recovery process. There will be companies that will not make it through this crisis, whilst others will be using the crisis as cover for underlying business flaws—we aim to sidestep these. We believe our investment framework and deep team experience gives us a solid foundation on which to help us identify key long term winners.

Top contributors (absolute)	Sector
Breville Group	Consumer Discretionary
Goodman Group	Real Estate
BHP	Materials
Top detractors (absolute)	Sector
CSL	Health Care
A2 Milk	Consumer Staples
Technology One	Information Technology
Platforms	
BT Wrap, Macquarie Wrap, Netwealth, Hub24, Powerwrap	

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