# Prime Value Diversified High Income Fund
# Fund Update – July 2020

By Matthew Lemke, Fund Manager

- The Fund performed above-target in July (0.49% for the month) and will make its normal 0.42 cents per unit distribution in early August
- We are managing the Fund portfolio with a mindset of 'managing risks with unknown outcomes, and not taking a view'
- Risks that we are particularly taking into account at the moment are the possibility that coronavirus case numbers will only fall moderately or not at all, the speed and timing of the withdrawal of government support (such as JobKeeper), the lead up to the US presidential election in November, and the release of corporate/bank financial reports/updates over the next 2-3 weeks (with possible asset write-downs and dividend cuts)

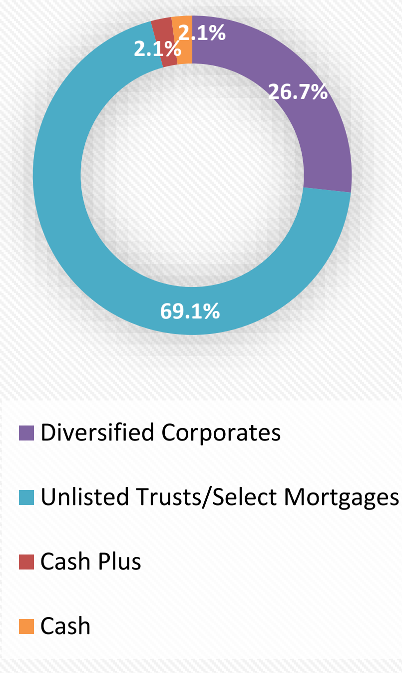
| | Net Return* | Benchmark (RBA +4% p.a.) |
|---|---|---|
| 1 Year (Since inception) | **4.24%** | 4.61% |
| 3 Months | **0.99%** | 1.05% |
| 1 Month | **0.49%** | 0.35% |

* 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 | $0.9917 |
| Withdrawal Price | $0.9907 |
| Distribution (30/06/20) | $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

Liquidity is a major attribute of the current market environment. The Fund had a reasonable month in July as markets across equities, property and credit/ debt securities were well-behaved and functional with good liquidity.

Liquidity has been introduced in a variety of guises, including significant interest rate cuts by central banks, 'Quantitative Easing' (purchase by the central bank of government securities) and central banks including the RBA making cheap loans to banks to enable them to extend credit to businesses. Government assistance comes typically in the form of benefits to businesses to ensure employees can be retained. These measures have caused a large increase in government debt and therefore budget deficits.

A significant risk to economies around the world at the moment is how this central bank and government support will be eventually removed ('tapered'), the speed of its removal, and whether this triggers a major recession. The politics and market effects surrounding the removal of government support cannot be anticipated. This factor will clearly be a major influence in the US presidential election in November. We are already seeing significant debate in the media and as between the White House and the Democrat-controlled House of Representatives on the additional support measures, its size, and how and to whom this support is delivered. The political, economic and social effects of coronavirus will be very significant and have profound implications in as-yet undefined ways.

As an income fund, we are particularly interested in the overall effect on interest rates from the liquidity deluge from the RBA and government support measures. The RBA has now mandated wholesale or 'base' interest rates out to 3 years at a maximum rate of 0.25%. This effectively means all money market rates are now less than 0.25%. Investment income is therefore very low as corporate dividends are being cut, placing pressure on many investors such as retirees to replace this lost income. No doubt the government liquidity and investor need for yield are part of the reason for the strong equity markets, with equities substantially taking on the mantle of "default investment of preference". This may not be sustainable. Low interest rates and fiscal stimulus will eventually cause inflation will be likely to pick up, but this will not occur at least for the next 1-2 years and will depend on the way the economy responds to the stimulus and how the pandemic works through society into the economy. However, inflation is a factor that we are taking into account in our portfolio management.

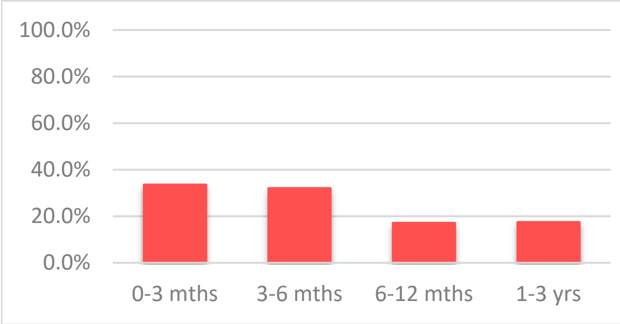
At a global level, the large fallout of the US$ (which has led to the big rally in the A$ against the US$ in recent weeks) and the rise of the gold price above US$2,000 per ounce is being said by some commentators to signal the ultimate demise of the US$ as the major international/reserve currency, particularly as President Trump has taken the US to a more domestic-orientated approach. If true, this would have profound economic and market ramifications across the globe. However, we believe the suggestion of the demise of the US$ is far too premature. Moreover, we believe the US is robust and will be able to deal with the civil unrest and political issues being seen, and continue its strong role albeit in a world where geopolitical balances are being tested and significant change experienced. Although there is some antagonism between the US and China at the moment, we believe these two countries will eventually work out ways to accommodate each other.

Having said that, we anticipate that longer term there will be significant changes to the financial/monetary system, and we believe the US$ weakness and gold surge beyond US$2,000 per ounce reflect this sentiment to some degree.

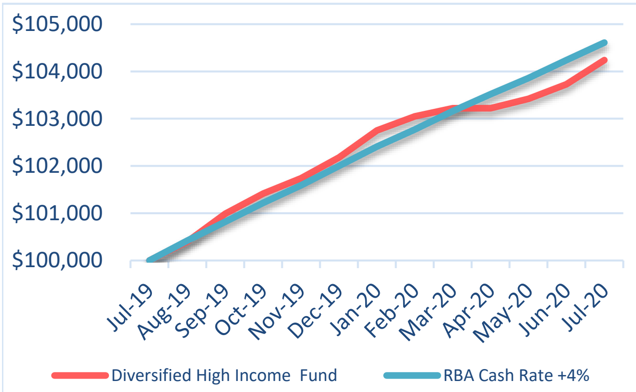
On a medium-term basis the current environment will create significant societal effects (via inter-generational factors, income disparities and wealth distribution), along with changes in the political, geopolitical, trade, employment and business landscape. Medical, health and aged care services will all have significant focus and change. Laws and the institutional framework will change in this new 'norm'.

We do not have specific views on these changes, moreover our portfolio management objective is to manage potential risks from these changes. Our task in the Fund is to manage risks to our objectives to maintain income distributions to our investors and investor capital protected.

## Interest Rate Reset Management




The Fund's portfolio weighted average interest rate reset duration is approximately 1.05 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 $104,240 (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 $104,610 over the same period.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