

# Prime Value Diversified High Income Fund

## Fund Update – August 2020



By Matthew Lemke, Fund Manager

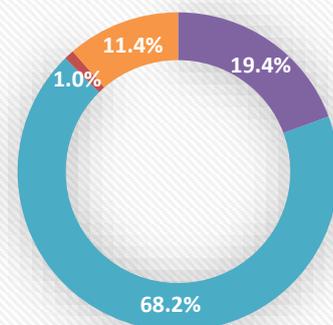
- The Fund performed well in July and August, slightly above its target return for the financial year to date
- The normal distribution of 0.42 cents per unit will be paid in early September
- Markets generally have been “well-behaved” and have performed well over the last 5 months though now in a “holding pattern”
- The Fund portfolio is defensively positioned to ensure we protect investor capital, maintain the traditional monthly distribution, and can continue to meet investor redemption requests each month

	Net Return*	Benchmark (RBA +4% p.a.)
Since inception (p.a.)	<b>4.25%</b>	4.59%
1 Year	<b>4.15%</b>	4.55%
3 Months	<b>1.15%</b>	1.08%
1 Month	<b>0.35%</b>	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% <sup>1</sup> p.a.
Performance Fee	15% of net performance above the RBA Cash Rate + 4% p.a.
Issue price	\$0.9910
Withdrawal Price	\$0.9900
Distribution (31/08/20)	\$0.0042
<small>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.</small>	

### Holdings by Industry Sectors



- Diversified Corporates
- Unlisted Trusts/Select Mortgages
- Cash Plus
- Cash

## Fund review and strategy

The Fund performed well in July and August, slightly above its target return and above its benchmark return, continuing its good performance.

The Fund portfolio consists of a range of income securities so is “exposed” to global markets. Markets have been well-behaved and performed well over the last 5 months.

My sense is that all markets are now in a “holding pattern” for three reasons:

1. Coronavirus cases globally and in Australia have settled down to a reasonably consistent pattern giving markets heart that the edges of the pandemic can be understood although strong predictions on outcomes are still dubious absent a vaccine.
2. Much of the attention in the US is on the elections in November with politicians and media now well and truly in election mode.
3. The massive amount of liquidity (monetary) that has been fed into markets by central banks around the world, plus the massive government support for economies (fiscal). The market knows this support will eventually be withdrawn but does not quite know when or how.

The US Presidential election coincides with Congress and Senate elections in the US. It is difficult to see how the Democrats can lose control of Congress. However it is not so clear about Republican control of the Senate. We are watching carefully for developments in this regard.

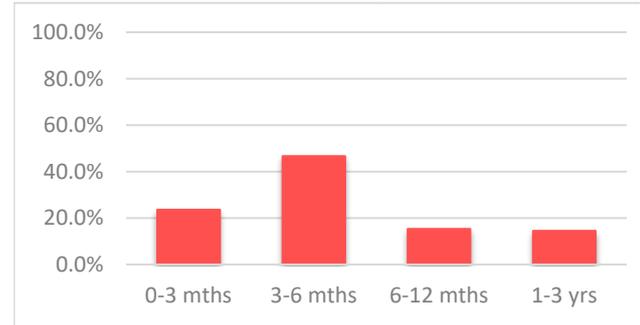
We remain extremely vigilant to markets, particularly the “in play” factors mentioned above. The unwind of government support will reveal the true extent of recessions globally and in Australia and whether government policy has been successful. At the moment, recessionary conditions are being “hidden” by the government liquidity with consequent debt build up not occurring at the level of individuals or companies/ businesses but at the government level - where it is far less visible and “urgent”. In Australia’s case, it is also far less worrisome given that Australia is AAA-rated and entered the coronavirus pandemic in good shape with a Budget surplus and very low debt.

The Fund’s portfolio remains defensively positioned and will continue to be resilient to any market volatility. Any significant market downturn will only cause a minor gyration in the prices of assets and securities within the Fund’s portfolio.

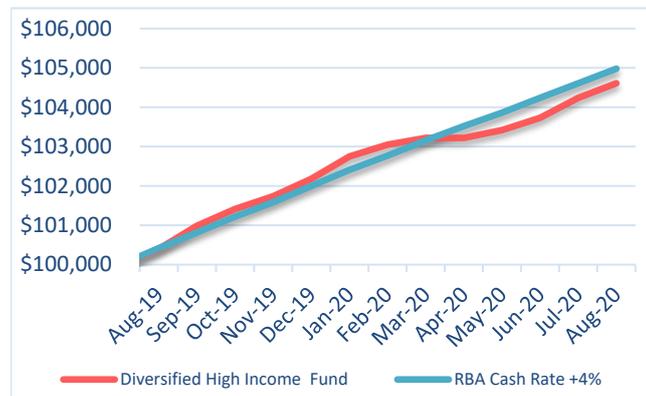
As the Fund continues to deliver a 0.42 cents distribution each month, and given that the portfolio is reasonably defensively positioned, the ability of the Fund to return quickly to a unit price over \$1 will be constrained. We remind our investors that the recommended investor time frame is 1-2 years and we expect the Fund’s unit prices to satisfy this timeframe by moving back to \$1 and above in coming months. We will only add risk to the portfolio once we are absolutely convinced any further market volatility is behind us.

Our objective is not to take risk on “views” – our portfolio management is centred on managing risk to protect investor capital, deliver a monthly distribution of 0.42 cents per unit, and ensure we can meet investor redemption requests each month (which we have been achieving without any interruption whatsoever).

## Interest Rate Reset Management



The Fund’s portfolio weighted average interest rate reset duration is approximately 1.03 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 \$104,610 (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 \$104,980 over the same period.

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