

# Prime Value Emerging Opportunities Fund Update – October 2020



- Global share markets moved lower towards the latter part of October as COVID-19 cases mounted against a backdrop of fading US stimulus.
- The Emerging Opportunities Fund's return in October was 0.7%, 0.3% above the Small Ordinaries Accumulation Index (0.5%) and in line with the benchmark of 0.7% (8% p.a.).
- The portfolio remains well balanced with a number of attractively priced companies that will benefit from an effective vaccine (eg travel, leisure, cyclicals) while being heavily weighted to those which can grow with little dependence on the economic cycle.

	Total Return*	Benchmark (8% pa)	Value Add
Since Inception (p.a.)	<b>12.9%</b>	8.0%	4.9%
5 Years (p.a.)	<b>13.1%</b>	8.0%	5.1%
3 Years (p.a.)	<b>13.3%</b>	8.0%	5.3%
2 Years (p.a.)	<b>15.5%</b>	8.0%	7.5%
1 Year	<b>14.7%</b>	8.0%	6.7%
3 Months	<b>6.9%</b>	2.0%	4.9%
1 Month	<b>0.7%</b>	0.7%	0.1%

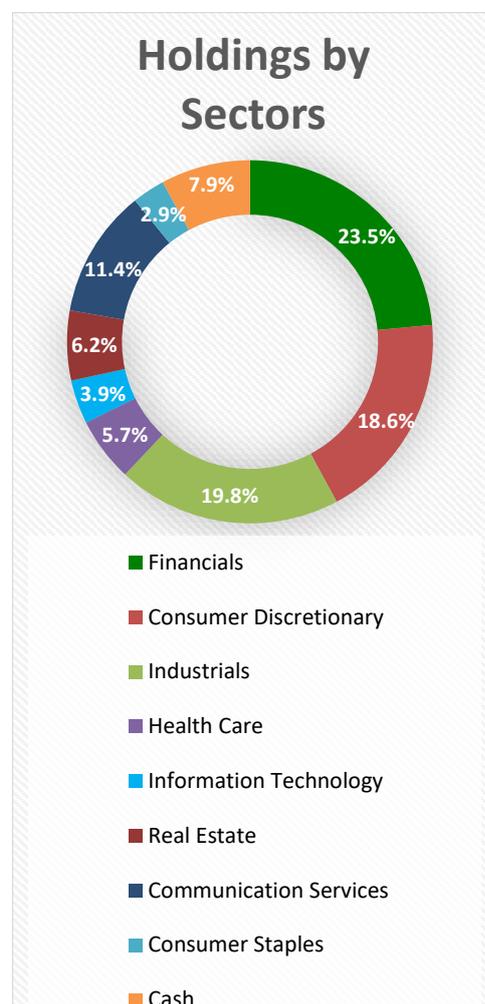
\* Fund returns are calculated net of management fees and performance fees assuming all distributions are re-invested. Performance figures have been calculated in accordance with the Financial Services Council (FSC) standards. The returns exclude the benefits of imputation credits. Past performance is not necessarily an indicator of future performance.

	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	FYTD	ITD
FY 2016					6.3%	0.7%	(0.2%)	(3.9%)	2.4%	3.3%	2.4%	(0.2%)	<b>13.8%</b>	<b>13.8%</b>
FY 2017	7.4%	2.5%	1.6%	(0.3%)	(6.0%)	(2.0%)	1.1%	(1.6%)	1.8%	(1.8%)	(1.2%)	2.5%	<b>3.4%</b>	<b>17.6%</b>
FY 2018	1.3%	1.8%	2.3%	2.7%	1.5%	3.9%	(0.8%)	0.6%	(2.2%)	(0.5%)	3.9%	3.4%	<b>19.0%</b>	<b>40.0%</b>
FY 2019	(0.8%)	2.9%	2.1%	(4.8%)	(2.0%)	(5.8%)	1.5%	5.8%	1.9%	2.7%	(1.0%)	(0.6%)	<b>1.2%</b>	<b>41.7%</b>
FY 2020	5.3%	2.0%	1.5%	4.5%	4.2%	0.5%	1.9%	(5.8%)	(19.1%)	12.7%	11.6%	1.4%	<b>18.1%</b>	<b>67.3%</b>
FY 2021	3.6%	6.0%	0.2%	0.7%									<b>10.7%</b>	<b>85.2%</b>

Top five holdings (alphabetical order)	Sector
AUB Group	Financials
Bapcor	Consumer Discretionary
EQT Holdings	Financials
Mainfreight	Industrials
Oceania Healthcare	Healthcare

\* The top five holdings make up approximately 22.2% of the portfolio

Feature	Fund facts
Portfolio Manager	Richard Ivers
Investment objective	Achieve superior total returns by providing medium to long term capital growth by investing in smaller capitalisation companies.
Benchmark	8% p.a.
Inception date	8 October 2015
Typical number of stocks	25-50
Cash	0 - 100%
Unlisted Exposure	0 – 20%
International Exposure	0 – 20%
Distributions	Half-yearly
Suggested Investment Period	3 + years



## Market review

Global markets retreated through October, driven by fading stimulus expectations, weak US tech results and rising COVID-19 cases. Utilities and Communication Services were the only sectors that did not fall, as Energy, IT and Health Care sectors underperformed. The S&P 500 Index fell 2.7%, but still slightly outperformed the Developed Market World Index return of -3.0%. The World Developed Markets Index underperformance was led by the Euro Stoxx Index, which fell by -7.9% in US Dollar terms. In comparison, the World Emerging Markets Index outperformed, rising by 2.1% in US Dollar terms.

Global commodity prices fell slightly in October. Brent Oil prices fell US\$3.49/bbl to US\$37.46/bbl, partly driven by an appreciating US Dollar. Iron ore prices fell moderately, -US\$2.00/t to US\$118.00/t. Gold prices decreased slightly from US\$1886.90/oz to US\$1,881.85/oz but are still close to record highs.

ASX300 Index returns were positive in October (+1.9%) and outperformed most global peers. Drivers included a market-friendly Federal Budget of which many ASX300 constituents were direct beneficiaries, increased prospects of further monetary easing (including a QE program) from the RBA, and a virus and mobility trajectory that was supported by the reopening of Victoria and compared favourably with reversals in Northern Hemisphere markets. IT (+9.0%), Financials (+6.3%) and Consumer Staples (+4.8%) outperformed the most, while Industrials (-3.9%), Utilities (-1.5%) and Materials (-1.2%) underperformed the most. However, the headline numbers do not reflect that it was a month of two halves. During the first half of October equity markets were extremely bullish as low interest rates and the prospect of further stimulus from the US drove markets higher. Sentiment shifted in the latter part of October as a second wave of COVID-19 hit Europe, against a backdrop of delayed US stimulus and the prospect of higher taxes and regulation should there be a Democratic clean sweep in the US elections.



This graph shows how \$100,000 invested at the Fund's Inception has increased to \$185,200 (net of fees). This compares with the return of the benchmark, where a \$100,000 investment would have increased to \$147,700 over the same period. The returns exclude the benefits of imputation credits.

	Direct Investment
APIR Code	PVA0013AU
Minimum Investment	\$20,000
Issue price	\$1.7045
Withdrawal price	\$1.6909
Distribution (30/06/2020)	\$0.0032
Indirect Cost Ratio (ICR)	1.25%*
Performance fee	20%** p.a.

\* 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 positive performance

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## Fund review & strategy

The fund's return was 0.7% in October, 0.3% above the Small Ordinaries Accumulation Index of 0.5% (note rounding difference).

Key positive contributors for the month were **Mainstream** (MAI +38.4%), **Mainfreight** (MFT.NZ +17.2%) and **Oceania Healthcare** (OCA +19.3%). Key detractors were **Austal** (ASB -17.4%), **Omni Bridgeway** (OBL -12.2%) and **EQT Holdings** (EQT -7.8%).

Among the largest holdings in our fund is **Mainfreight**. Being New Zealand listed it gets little publicity here in Australia but is an exceptional business and has generated very strong returns for the fund. A freight forwarding business, it provides logistics and transport services globally including in Australia where its blue trucks are frequently visible. Operations span New Zealand, Australia, Asia, Europe and the Americas across haulage, air/ocean and warehousing.

Over the last 10 years earnings per share has grown 15% p.a. compound and investment returns have been even higher. Its disciplined focus on LCL (less than container load) is a higher margin and return on capital segment than larger volume customers where pricing is more pressured. This is reflected in Mainfreight's return on capital employed which is very strong at 21%.

Key to logistics is network efficiency; well positioned warehouses, efficient routes and high load factors. Having previously invested in network infrastructure, utilisation increases as it grows driving greater network efficiency. This enables it to offer better customer service through quicker delivery times while increasing its own profit margins. A recent example is the opening of a depot in Levin, New Zealand which means deliveries from Wellington no longer need to go via the Palmerston North depot. This results in quicker delivery times for the customer, frees up capacity in the Palmerston North facility and reduces stock handling and labour costs. As the company grows, opportunities to deploy capital at high returns and generate efficiencies also grow. The balance sheet is exceptionally strong with almost no debt and over NZ\$600m of land and buildings.

Organisational culture typically gets little focus by investors. Mainfreight runs a de-centralised structure. Each location has its own profit and loss and staff are awarded a bonus based on profit growth at that location. Local accountability and decision making encourages innovation and improves customer service. Key to this culture is CEO, Don Braid who has held the role for 20 years and seems as passionate as ever to us.

This is one of many companies in the portfolio with an exceptional business model that we expect to deliver strong investment returns over the long term.

Top Contributors (Absolute)	Sector
Mainstream Group	Financials
Mainfreight	Industrials
Oceania Healthcare	Health Care
Top Detractors (Absolute)	Sector
Austal	Industrials
Omni Bridgeway	Financials
EQT Holdings	Financials
Platforms	
Netwealth	

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