

# Prime Value Opportunities Fund

## 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
- In contrast the ASX300 Accumulation Index rose 1.9% in October aided by a stimulatory Federal Budget, expectations of further monetary stimulus and a resilient domestic economy
- The Fund gained 0.5% in October. Fund performance was strong during the first half of October but retraced as profit taking affected near term share prices. We remain extremely positive on the prospects of our holdings

	Total Return*	Benchmark (8% pa)	Value Add
Since inception (p.a.)	9.7%	8.0%	1.7%
7 Years (p.a.)	6.6%	8.0%	(1.4%)
5 Years (p.a.)	6.2%	8.0%	(1.8%)
3 Years (p.a.)	4.3%	8.0%	(3.7%)
1 Year	(0.5%)	8.0%	(8.5%)
3 Months	0.7%	1.9%	(1.2%)
1 Month	0.5%	0.6%	(0.1%)

\* 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.

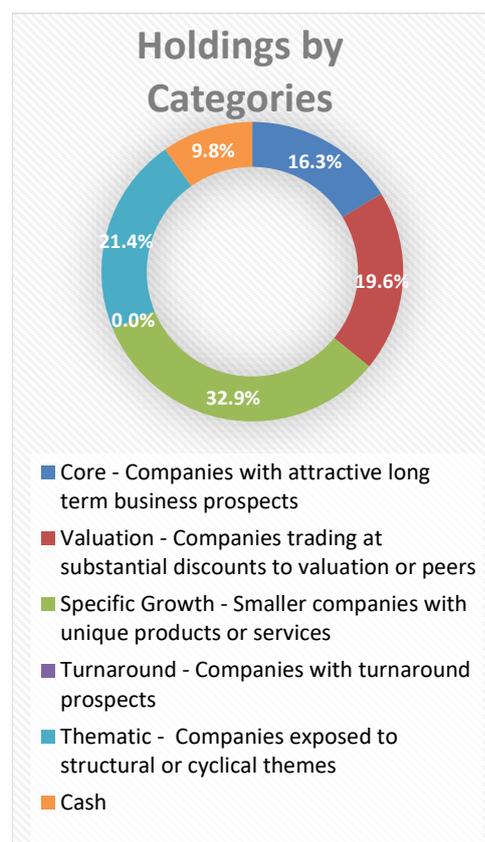
	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	FYTD	ITD
FY 2013					1.8%	1.7%	4.3%	6.2%	(0.6%)	4.0%	(2.2%)	(1.6%)	14.1%	14.1%
FY 2014	4.4%	2.6%	4.3%	5.0%	(1.1%)	1.5%	(1.9%)	5.9%	0.2%	0.3%	0.3%	(1.4%)	21.4%	38.5%
FY 2015	2.5%	1.0%	(4.1%)	3.1%	(1.9%)	0.7%	1.5%	5.7%	1.4%	(1.0%)	0.5%	(4.3%)	4.6%	44.9%
FY 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%	3.0%	(1.1%)	105.2%
FY 2021	1.6%	4.1%	(3.6%)	0.5%									2.3%	110.0%

Top five holdings	Sector
CSL	Health Care
BHP	Materials
Commonwealth Bank	Financials
Macquarie Group	Financials
Bapcor	Consumer Discretionary

The top five holdings make up approximately 28.4% 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

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 sharply 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 by a slight 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 Budget of which most 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 belie 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 out of 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.

## Fund review and strategy

The Fund gained 0.5% in October, which was below the broader market's 1.9% gain for the month. Fund performance was strong during the first half of October but retraced as profit taking affected near term share prices. There was noticeable investor selling as the US election neared. We anticipated an increase in market volatility, ahead of such events, but are largely unconcerned as we remain extremely positive on the prospects of our holdings.

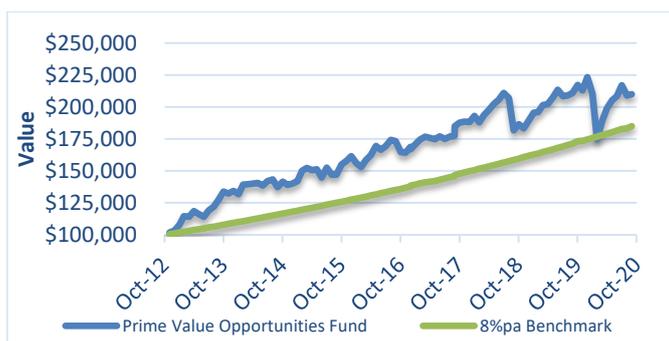
The top contributors to performance in October were: **Commonwealth Bank** (8.5%), car parts supplier **Bapcor** (12.8%) and **Macquarie Group** (6.0%). The top detractors from performance in October were: **BHP** (-6.1%), **City Chic** (-6.8%) and **Austral** (-17.4%).

The Fund has had robust performance in the past 12 months compared to the market's 7.9% decline and has risen 33% since the market lows of March 23 2020. Fund performance continued to be largely driven by good stock selection, and by staying composed and investing rationally going into and during the COVID-19 crisis.

In March and April we identified and invested in a number of well managed quality companies that were trading on cheap valuations. A number of these holdings have rallied strongly (Bapcor +207%, Macquarie Group +58%, IDP Education +64%) and have exceeded their pre COVID-19 share price levels. Despite the strong market rally over the past seven months, we continue to identify well managed high quality companies that trade well below their pre-COVID-19 levels. We believe these companies have the potential to generate good returns or the Fund as economies recover into the next 12 to 36 months—ship and ferry builder Austral falls into this category and has the potential to generate good returns for the Fund, regardless of the state of economic recovery.

During the month Austral fell following press reports that payments made to the company by the Australian Border Force for the Cape Class vessel program in 2015, was under investigation by the Australian Commission for Law Enforcement Integrity. While there is nothing to suggest any wrong-doing, it had an adverse impact on investor sentiment. We have a small holding in Austral at this point but we will continue to monitor the situation and for the opportunity to increase our holdings.

As we write this Fund update, promising news of an effective COVID-19 vaccine is emerging. The prospect of an improved COVID-19 outlook and the combination of low interest rates and strong fiscal stimulus should lead the way to economic recovery—all in, positive for equities. We believe as the outlook for COVID-19 gradually improves, we expect to see a strong recovery in many oversold companies.



This graph shows how \$100,000 invested at the Fund's Inception has increased to \$210,000 (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 \$185,000 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	\$ 1.5922	\$ 1.5611
Withdrawal price	\$ 1.5802	\$ 1.5493
Distribution (30/06/2020)	\$ 0.0514	\$ 0.0495
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

Top contributors (absolute)	Sector
Commonwealth Bank	Financials
Bapcor	Consumer Discretionary
Macquarie Group	Financials
Top detractors (absolute)	Sector
BHP	Materials
City Chic	Consumer Discretionary
Austral	Industrials

### Platforms

BT Wrap, Macquarie Wrap, Netwealth, Hub24, Powerwrap

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