

Prime Value Emerging Opportunities Fund Update – December 2020



- Global share markets posted further gains on top of strong November rallies and in spite of incrementally negative COVID-19 news during the month.
- The fund returned +3.2% in December, 0.5% above the Small Ordinaries Accumulation Index of +2.8% and 2.6% above the benchmark of 0.7% (8% p.a.).
- For calendar year 2020, the fund returned +23.4%, 14.2% above the index return of +9.2%. While this is a pleasing headline result, what is most pleasing to us is the source of these returns which were broad based. It follows a similarly solid 2019 when returns were +31.8%.

	Total Return*	Benchmark (8% pa)	Value Add
Since Inception (p.a.)	15.1%	8.0%	7.1%
5 Years (p.a.)	13.7%	8.0%	5.7%
3 Years (p.a.)	15.8%	8.0%	7.8%
2 Years (p.a.)	27.5%	8.0%	19.5%
1 Year	23.4%	8.0%	15.4%
3 Months	13.4%	1.9%	11.4%
1 Month	3.2%	0.6%	2.6%

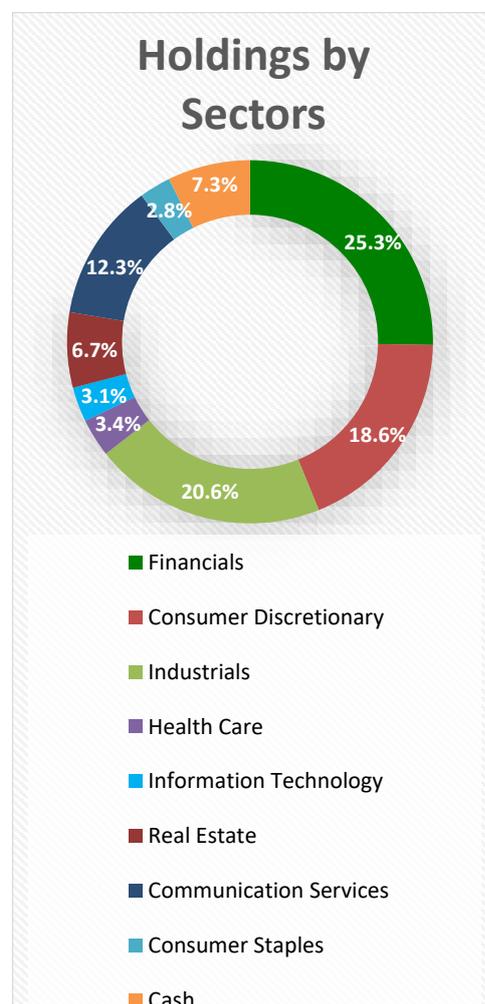
* Fund returns are calculated net of management fees and performance fees assuming all distributions are re-invested. Performance figures have been calculated in accordance with the Financial Services Council (FSC) standards. The returns exclude the benefits of imputation credits. Past performance is 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%)	13.8%	13.8%
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%	3.4%	17.6%
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%	19.0%	40.0%
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%)	1.2%	41.7%
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%	18.1%	67.3%
FY 2021	3.6%	6.0%	0.2%	0.7%	9.0%	3.2%							24.6%	108.5%

Top five holdings (alphabetical order)	Sector
City Chic	Consumer Discretionary
EQT Holdings	Financials
Mainfreight	Industrials
News Corporation	Communication Services
Pinnacle Investment Management Group	Financials

* 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

US equities had a strong month in December, rallying following the commencement of COVID-19 vaccine distribution and general optimism for 2021. A notable development was President Trump signing the aid bill four days before the end of the year. The combined US\$2.3 trillion relief and government funding package prompted the S&P500 Index to finish December up 3.7%, the Nasdaq 5.1% higher and the Dow Jones Industrial Average up 3.7%. In Europe, the STOXX600 and the FTSE100 indices rose 2.5% and 3.1% respectively as COVID-19 vaccines fuelled hopes of an economic rebound, while the U.S. election and Brexit deal reduced political risks. The Basic Materials sector stood out for the STOXX600 Index returning 10.8%, followed by Travel and Leisure (+6.5%). Consumer Products and Services (+5.8%). Telecommunication lagged the index down (-3.1%) over the month.

Crude oil futures posted further gains in December. WTI and Brent Crude oil gained 7.0% and 10.5% in December, following 26.7% and 27.9% in November. Gold posted the first monthly gain since July after a run of losses prompted by the development of effective COVID-19 vaccines. Gold increased 6.8% in December. Despite the government struggling to contain COVID-19 clusters within Australia, the Australian Dollar finished the year strongly at 76.9c against the US Dollar.

The ASX300 Accumulation Index was stronger in December, closing 1.3% higher and leading global peers for the quarter. Resources fared better than Industrials across all size indices by a significant margin with the ASX200 Resources Index returning +8.5% compared to the ASX200 Industrials index falling -0.6%. Mid-Caps (+3.4%) outperformed Small (+2.8%) and Large (+0.7%) Indices. Within sectors, Info Tech rose the most (+9.5%) followed by Materials (+8.8%). Utilities (-5.4%) and Health Care (-4.9%) fell the most in the month.

Australia is well placed. We expect Australia's economic recovery to continue in 2021, helped by lower virus incidence and sustained policy support. Recent economic data has been better than expected, and while momentum should slow in 2021, the economy has a stronger base to build on the recovery.



This graph shows how \$100,000 invested at the Fund's Inception has increased to \$208,500 (net of fees). This compares with the return of the benchmark, where a \$100,000 investment would have increased to \$149,600 over the same period. The returns exclude the benefits of imputation credits.

	Direct Investment
APIR Code	PVA0013AU
Minimum Investment	\$20,000
Issue price	\$1.8890
Withdrawal price	\$1.8872
Distribution (31/12/2020)	\$0.0230
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 +3.2% in December, 2.6% above the benchmark of 0.7% (8% p.a.).

Key positive contributors for the month were **City Chic** (CCX +45.7%), **Pinnacle Investment** (PNI +15.6%) and **Mainfreight** (MFT +11.4%). Key detractors were **Helloworld Travel** (HLO -17.4%), **United Malt Group** (UMG -7.2%) and **Austal** (ASB -8.6%).

For calendar year 2020, the fund returned +23.4%, 14.2% above the Small Ordinaries Accumulation Index return of +9.2%. While this is a pleasing headline result, what is most pleasing is the source of these returns. We didn't invest in higher risk, "hot" areas like mining or buy now, pay later and gains were broad-based with downside protected. 18 stocks contributed more than +1% to returns while no stocks contributed worse than -1%. The fund outperformed the index 8 of the 12 months including all 4 months the index declined. Over the almost 3 years with the current portfolio manager, the fund has outperformed 86% of months when the index declined, and 50% of months when the index rose. For a long-only fund (does not short companies), downside protection is particularly strong, reflecting Prime Value's core investment focus and foundation as a family office.

However there are areas we can improve. This includes a cash weighting that was a little high, averaging 9% in 2020 which dragged on performance and we missed some suitable opportunities during the year. We are also adding an analyst to the team to broaden our stock coverage and increase the depth of research. These changes are incremental. Our investment process and risk focus has not changed. After a strong 2019 (+31.8%) and 2020 (+23.4%) our focus is very much on continuing to deliver investment returns while managing risk.

2021 will be another interesting year. The Australian economy is recovering strongly, vaccines are being rolled out globally and a new US President will be inaugurated. There are also some recent concerns with rising US bond yields and virus mutations. But overall we remain positive on the outlook while highlighting the challenge of forecasting the direction of markets in the short term.

At the stock level we are still seeing many attractive investment opportunities and expect the coming year will provide more. With hundreds of suitable listed companies on offer each with a different business model, periods of change can provide lucrative investment opportunities. To uncover these opportunities we continue to undertake an active company meeting program, averaging more than 2 meetings per day.

We thank unitholders for investing your capital with us in 2020. We will be working to deliver for you in 2021.

Top Contributors (Absolute)	Sector
City Chic	Consumer Discretionary
Pinnacle Investment	Financials
Mainfreight	Industrials
Top Detractors (Absolute)	Sector
Helloworld Travel	Consumer Discretionary
United Malt Group	Consumer Staples
Austal	Industrials
Platforms	
Netwealth	

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