

# Prime Value Emerging Opportunities Fund Update – January 2021



- Investors started the new year on a positive note, although sentiment waned post the Biden presidential inauguration.
- The fund returned +0.7% in January, 1.0% above the Small Ordinaries Accumulation Index of -0.3% and 0.1% above the benchmark of +0.6% (8% p.a.).
- The portfolio has a good balance of companies experiencing strong earnings growth and those at attractive prices which offer compelling longer term value.

	Total Return*	Benchmark (8% pa)	Value Add
Since Inception (p.a.)	15.0%	8.0%	7.0%
5 Years (p.a.)	13.9%	8.0%	5.9%
3 Years (p.a.)	16.4%	8.0%	8.4%
2 Years (p.a.)	27.0%	8.0%	19.0%
1 Year	22.0%	8.0%	14.0%
3 Months	13.4%	1.9%	11.4%
1 Month	0.7%	0.6%	0.1%

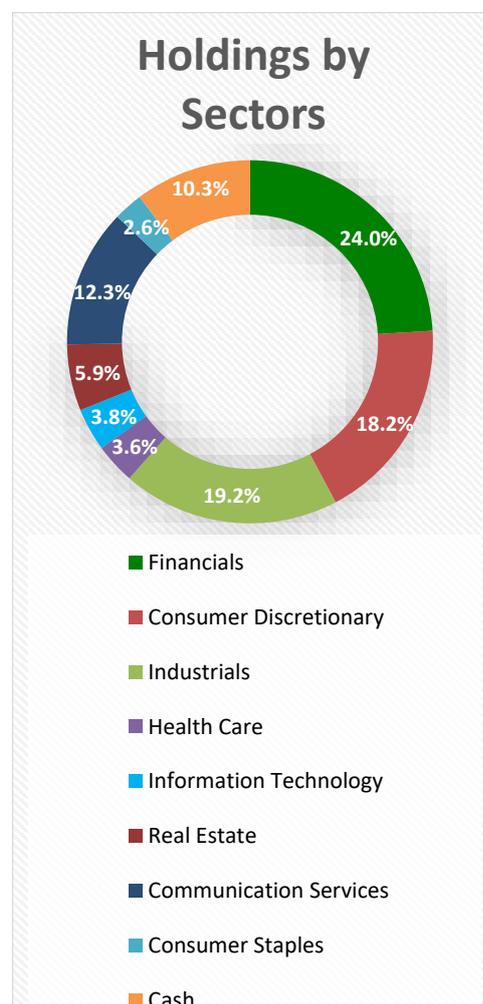
\* Fund returns are calculated net of management fees and performance fees assuming all distributions are re-invested. Performance figures have been calculated in accordance with the Financial Services Council (FSC) standards. The returns exclude the benefits of imputation credits. Past performance is 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%)	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%	0.7%						25.5%	109.9%

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

\* The top five holdings make up approximately 21.3% 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

Equities ran up to record highs in early January as investors awaited the release of Biden's COVID-19 relief proposal. The S&P500 Index started to slide mid-month as optimism around President-elect Joe Biden's US\$1.9 trillion COVID-19 relief proposal dissipated and bank stocks dragged after reporting earnings. Investors came into the year positively, with expectations of a strong second quarter. However, US consumer sentiment edged lower in late January, adding to signs that consumers remain subdued about prospects for the economic recovery as the pandemic wears on. Overall, the Nasdaq Composite Index finished the month up 1.4% while the Dow Jones Industrial Average and the S&P 500 Index fell 2.0% and 1.1% respectively.

Brent Oil prices rose US\$4.08/bbl to US\$55.88/bbl, partly driven by vaccine optimism and a surprise Saudi oil supply cut. Iron ore prices surged to US\$170/Mt by late January but retraced back to US\$158/Mt by the end of the month. Gold prices fell US\$23.80/oz to US\$1,863.80/oz.

It was a volatile month for Australian equities, with the local benchmark starting on a positive note before finishing the month +0.3% higher. The early to mid-January trading was dominated by another surge in optimism towards reflation and cyclically led rotation opportunities particularly post the US Georgia run-off election outcomes. However, this strength and direction faded into month end as the resources sector fell towards the end of the month with Industrials performing better across all size indices. In contrast to the recent trend, large caps were the better outperformers, with the ASX20 Index up 1.6% while the Small Ordinaries Index fell 0.3%.

In Australia, the Consumer Discretionary (+4.7%), Communication Services (+2.7%), and Financials (+2.2%) sectors outperformed the most, whilst REITs (-4.1%), Industrials (-3.0%) and Healthcare (-1.8%) underperformed the most.



This graph shows how \$100,000 invested at the Fund's Inception has increased to \$209,900 (net of fees). This compares with the return of the benchmark, where a \$100,000 investment would have increased to \$150,000 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 +0.7% in January, 0.1% above the benchmark of +0.6% (8% p.a.).

Key positive contributors for the month were **Redflex** (RDF +118.8%), **Redbubble** (RBL +21.4%) and **Oceania Healthcare** (OCA +10.8%). Key detractors were **Centuria Capital** (CNI -11.4%), **Omni Bridgeway** (OBL -8.1%) and **City Chic** (CCX -5.6%).

The highlight of the month was the takeover offer for **Redflex** at a 130% premium to the share price. We are a long term holder and it was pleasing to see underlying value reflected in the offer. It is a relatively small holding but still had a meaningful impact on the month's returns.

Looking at the year ahead, a key theme is likely to be vaccine rollout. As our lives return to a form of normal, the earnings profile of many companies will change dramatically while others will be less affected. To frame this dynamic we group companies into 4 types;

**Unaffected (28% of portfolio):** the earnings profile of these companies were largely unaffected by covid and the recent rebound. They are typically higher quality, defensive businesses and include insurance brokers and some REIT's. We are focused on ensuring the covid impact is not just delayed, along with valuations which are stretched in some areas.

**Negative covid impact, rebound underway (39%):** significantly impacted by covid in 2020 but are already experiencing a noticeable earnings rebound as their operations normalise. In many cases there is significant upside risk to consensus earnings expectations meaning valuation multiples are more attractive than would appear on face value. M&A is also becoming a feature as the strong get stronger. We are finding many attractive opportunities in this space.

**Negative covid impact, rebound medium term (17%):** still being significantly impacted by covid with normalisation some time away. Our investments in this category are higher quality with significant valuation upside longer term. In some cases there is short term downside risk to consensus earnings making it important to ensure this is reflected in the share price. Typically these companies are the greatest beneficiaries of vaccine rollout.

**Covid beneficiaries (8%):** earnings accelerated above pre-covid trajectory e.g. discretionary retail which benefited from stimulus payments. Our relatively low weighting in this category reflects caution that high valuations are being placed on unsustainably high earnings. Those we do hold are expected to benefit from covid longer term and valuations on "normalised" earnings are reasonable.

We remain positive on the outlook for the fund. This is not a call on the market, which is not our strength, but reflects our confidence in the underlying investments in the fund.

Top Contributors (Absolute)	Sector
Redflex Holdings	Information Technology
Redbubble	Consumer Discretionary
Oceania Healthcare	Health Care
Top Detractors (Absolute)	Sector
Centuria Capital	Real Estate
Omni Bridgeway	Financials
City Chic	Consumer Discretionary
Platforms	
Netwealth	

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