Prime Value Enhanced Income Fund Monthly Fund Update – July 2021

By Matthew Lemke, Fund Manager

- The Fund earned 0.24% after-fees in July, exceeding its benchmark return. The 1-year return is 3.33% after-fees, which is above the 90 day BBSW rate +2%. Of course, past performance is not necessarily indicative of future performance.
- Due to the fall in wholesale interest rates, the Fund's quarterly distribution will be lowered to 0.50 cents/unit in the September quarter in line with the Fund's benchmark return.
- New uncertainties have entered markets with the "delta variant", and economic growth forecasts are being downgraded. The Fund is being managed with the potential increase in market volatility in mind, with 'rolling' lockdowns likely to occur for some time.

	Net Return*	Net Return including Franking Credits**	90 Day Bank Bill Rate (BBSW)
Since inception (p.a.)	**2.95%**	3.46%	1.55%
5 Years (p.a.)	**2.98%**	3.56%	1.20%
3 Years (p.a.)	**2.17%**	2.57%	0.81%
1 year	**3.33%**	3.53%	0.04%
6 Months	**1.84%**	1.91%	0.02%
3 Months	**0.78%**	0.82%	0.01%
1 Month	**0.24%**	0.24%	0.00%

* 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. **Returns grossed up for Franking Credits are estimates.

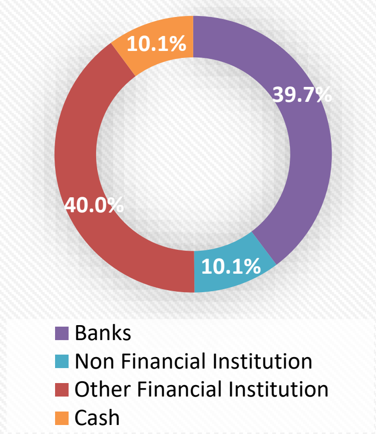
Major Holdings	Sector	Category
NAB	Banks	Wholesale Notes
Westpac	Banks	Wholesale Notes
CBA	Banks	Wholesale Notes
ANZ	Banks	Wholesale Notes
Bank of Queensland	Banks	Wholesale Notes

The top five holdings make up approximately 39.7% of the portfolio.

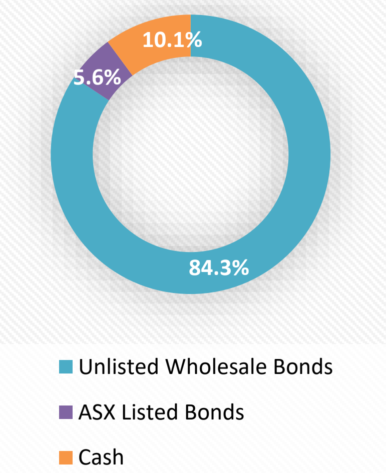
Feature	Fund Facts
APIR Code	PVA0009AU
Portfolio Manager	Matthew Lemke
Investment Objective	To provide regular income with low risk of capital loss in the medium term (appreciating that the Fund's unit price will vary with market factors and other factors affecting the prices of securities in the investment portfolio). The Fund targets a return to investors of 2.0% over the 90 day BBSW rate (this benchmark rate was previously the Reserve Bank of Australia's cash rate).
Benchmark	90 day BBSW rate (this benchmark rate was previously the Reserve Bank of Australia's cash rate). The benchmark rate was changed to better reflect the Fund's objectives.
Inception Date	3 June 2014
Interest Rate Reset Duration	Approx. 0.25 years
Distributions	Quarterly
Suggested Investment Period	1 + year
Minimum Investment	$50,000
Indirect Cost Ratio (ICR)	0.60%[1] p.a.
Issue price	$1.0002
Withdrawal Price	$0.9998
Distribution (30/06/21)	$0.0077

[1] Unless otherwise stated, all fees quoted are inclusive of GST and less the relevant RITC

Holdings by Sector



Holdings by Category



Fund review and strategy

The Fund's performance was good in July earning 0.24% on an after-fees basis which is above its benchmark return and follows on from June's return of 0.31% after-fees which is well above the benchmark return.

For the past 12 months, the Fund has earned 3.33% after-fees, which is above its benchmark return of the 90 day BBSW rate +2%. Of course, past performance is not necessarily indicative of future performance

For some time the Fund has been making quarterly distributions of 0.62 cents/unit. For the September quarter to be paid in October we plan to lower this distribution rate to 0.50 cents/unit. This distribution will be in line with the Fund's benchmark after-fees return. We are making this change mainly due to the fall in wholesale interest rates, and RBA statements that it is unlikely the official cash rate will be hiked until 2024. **The new distribution rate for the Fund is more sustainable and ensures we continue to manage the investment portfolio conservatively to protect investor capital.** Of course, returns more than 0.50 cents/unit in a particular quarter will be reflected in a higher unit price.

The Fund has continued to perform extremely well amongst 'peer' funds according to the independent Morningstar survey of cash-enhanced funds across Australia.

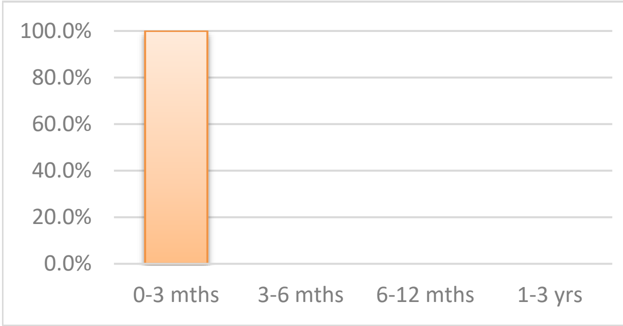
New uncertainties entered markets in July as investors grappled with the new "delta variant" with many downgrading their 2021 and 2022 economic growth forecasts which until the delta variant emerged in July have been quite optimistic. Markets recovered towards month-end but markets are still unsettled and a cloud hangs over the direction of economic growth globally. Australia entered lockdown with a solid economy but the gains are now somewhat at risk due to recent lockdowns that will occasionally flare up, such as lockdowns in various states and especially Sydney's prolonged lockdown.

In the wake of the delta variant, the RBA publicly stated that banks should prepare for negative rates. We do not believe the RBA will cut rates into negative territory. However, it is certainly an eventuality that cannot be fully ignored especially if the vaccination take-up is less than expected, or the delta variant is not contained as is happening in parts of Europe, Asia and North America. It is far more likely that the RBA will neither cut rates, nor hike rates; we do not expect any rate hikes until earliest late-2022. The RBA has been consistently guiding markets to rate hikes no earlier than 2024.

To some degree, the "bases are loaded" because the Australian and State Governments' capacity to provide additional or new support will be constrained by government debt. It is pleasing that equity, credit and property markets are faring well and although Government support will be gradually withdrawn, we are comfortable that the Australian and State Governments have the necessary financial ability to provide additional support should this be required over the next 1-2 years.

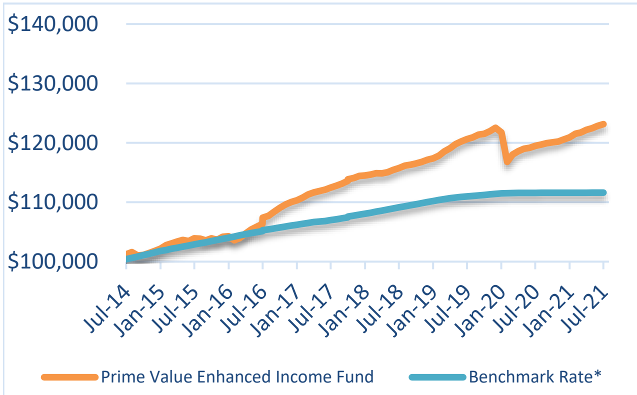
We continue to expect the Fund will perform well for the remainder of 2021, and 2022. We thank you for your support and confidence that you have placed in us to steward your capital.

Interest Rate Reset Management



The Fund's portfolio weighted average interest rate reset duration is approximately 0.22 years. The majority of interest rates are reset every quarter. Securities with interest rates reset every quarter are not exposed to the risk of interest rate increases, unlike fixed rate investments.

Fund Performance



This graph shows how $100,000 invested at the Fund's inception has increased to $123,150 (net of fees). This compares with the return of the benchmark rate, where a $100,000 investment would have increased to $111,620 over the same period.

*the Benchmark Return was calculated by reference to the RBA Official Cash Rate until December 2020 but thereafter by reference to the 90 day BBSW rate

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