

# Prime Value Growth Fund

## Fund Update – July 2021



- COVID variants emerged as a global concern but markets have remained largely calm and looking through the short-term noise.
- The Fund returned +1.3% in July, 0.2% above the ASX300 Accumulation Index of +1.1%.
- The Fund's returns have been increasingly strong delivering +35.6% over the last 12 months and significantly outperforming the index over 1 and 2 years.

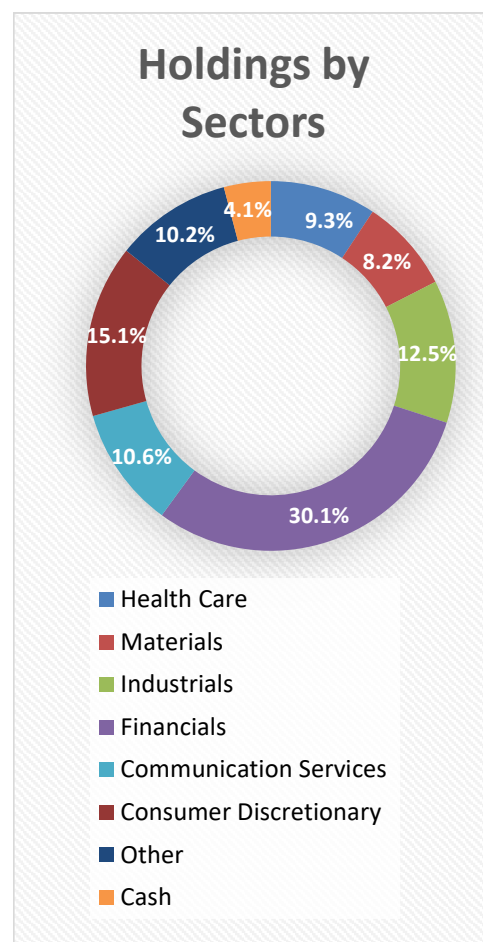
	Total Return*	S&P/ASX 300 Accumulation Index	Value Add
Since Inception (p.a.)	<b>11.2%</b>	8.6%	2.7%
5 Years (p.a.)	<b>6.9%</b>	10.1%	(3.3%)
3 Years (p.a.)	<b>6.9%</b>	9.7%	(2.8%)
2 Years (p.a.)	<b>10.4%</b>	8.0%	2.4%
1 Year	<b>35.6%</b>	29.1%	6.5%
3 Months	<b>6.2%</b>	5.8%	0.4%
1 Month	<b>1.3%</b>	1.1%	0.2%

\*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) standards. The returns are calculated before performance fees which are charged against individual accounts. The returns exclude the benefits of imputation credits. Past

Top five holdings	Sector
Commonwealth Bank	Financials
CSL	Health Care
Uniti Group	Communication Services
Pinnacle Investment	Financials
EQT Holdings	Financials

The top five holdings make up approximately 22.5% of the portfolio

Feature	Fund facts
Investment Objective	To provide superior medium to long term capital growth, with some income, by managing a portfolio of predominantly Australian equities listed on any recognised Australian Stock Exchange.
Benchmark	S&P/ ASX 300 Accumulation Index
Inception Date	10 April 1998
Cash	0 - 30%
Distributions	Half-yearly
Suggested Investment Period	3 + years



performance is not necessarily an indicator of future performance.

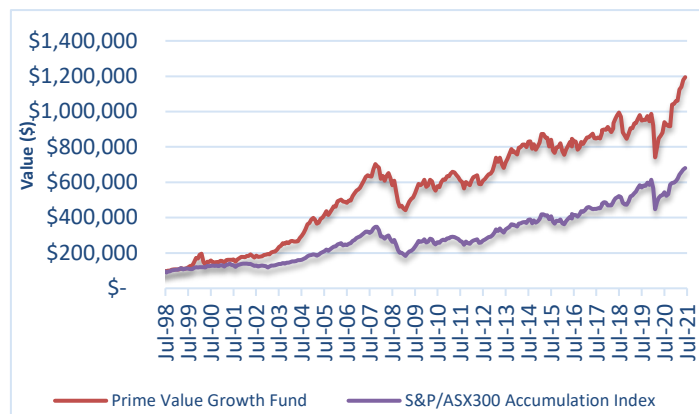
## Market review

Global markets had a mixed start to the new financial year as the Delta strain spread globally. This created some uncertainty amongst investors regarding the economic recovery's durability which was reflected in softer commodity prices and lower bond yields. Although investors are keeping a close watch on these developments, it's a fair observation to conclude that markets have not been overly bearish so far with vaccination rollout's continuing at pace. Naturally, the situation warrants attention with slowing economic growth and rising inflation a worst-case scenario.

The MSCI World Developed Markets Index rose (+1.8%) in US Dollar terms in July outperforming the Emerging Markets World Index which declined (-6.7%). The S&P500 Index drove developed market performance, rising 2.4%. Globally, in local currency terms, the best performing sectors were REITS (+4.2%), Health Care (+3.8%), and IT (+3.6%). The main underperformers were Energy (-6.2%), Financials (-0.1%) and Consumer Discretionary (+0.3%).

Brent Oil prices dropped \$2.23/bbl to \$72.89/bbl, as global concerns around the Delta variant spread. Iron ore prices also fell by \$US24.50/Mt to \$US191.00/Mt. Interestingly, Gold prices rose \$480.30/oz to \$1,811.45/oz.

The ASX300 Accumulation Index rose by 1.1% in July, underperforming the DM World Index's return of 1.7% in local currency terms. Resources outperformed Industrials across all size indices with Small Cap Resources (+7.4%) the best performing. Large caps (+1.3%) outperformed Mid (+0.7%) and Small caps (+0.7%) in the month. The Materials (+7.1%), Industrials (+4.2%), and Utilities (+1.6%) sectors outperformed in Australia. The sectors which underperformed the most were the IT sector (-6.9%), and Energy (-2.5%). Interestingly, the cyclical resources sector and IT sectors performed inversely to their global peers with Australian resources and IT companies outperforming and underperforming its global peers respectively.



This graph shows how \$100,000 invested at the Fund's inception has increased to \$1,194,400 (net of fees excluding performance fees). This compares very favourably with the return of the market, where a \$100,000 investment would have increased to \$680,400 over the same period. The returns exclude the benefits of imputation credits.

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.

	Direct Investment (Class A)	Platform Investment (Class B)
APIR code	PVA0001AU	PVA0011AU
Minimum Investment	\$20,000	N/A
Issue price	\$ 1.9425	\$ 1.9380
Withdrawal price	\$ 1.9277	\$ 1.9234
Distribution (30/06/2021)	\$ 0.0398	\$ 0.0399
Indirect Cost Ratio (ICR)*	1.435% p.a.	1.23% p.a.
Performance fee**	20.5%	20.5%

\* Unless otherwise stated, all fees quoted are inclusive of GST and less the relevant RITC

\*\* Of performance (net of management fees and administration costs) above the agreed benchmark, subject to positive performance and a high water mark

## Fund review and strategy

The fund's return was +1.3% in July, 0.2% above the ASX300 Accumulation Index of +1.1%.

Key positive contributors for the month were **BHP** (BHP +10.1%), **Pinnacle** (PNI +9.8%) and **NIB Health** (NHF +9.7%). Key detractors were **Australian Finance Group** (AFG -9.1%), **Omni Bridgeway** (OBL -8.3%) and **Maas Group** (MGH -17.5%).

**Pinnacle** performed solidly in July. It is a business we have held in the fund for many years with an average purchase price of approximately \$4, well below its price at the time of writing of \$15. Most of those gains have been generated in the last 9 months illustrating the importance of patience when investing. Pinnacle has been expanding and improving the quality of its business over time. We like businesses that can combine both as it typically results in higher earnings and a higher valuation multiple applied to those earnings. When these are combined, investment returns can be very large. It can take time for markets to appreciate these factors which is an opportunity for longer term investors. With much of the day-to-day focus of markets and media on the next earnings result, companies that are building great businesses over time can be overlooked. When it does become appreciated stock prices can move quickly. It's typically unpredictable when this will occur so we are happy to invest early with the confidence that returns will come and likely be large at some point. Our portfolio has a balance of companies that are benefitting from these large returns now (eg Pinnacle), some that will likely benefit medium term and others longer term. Harvesting returns from current winners that become over-valued, allows us to fund new "seeds to plant" that will bear fruit in time. The cycle goes on, delivering consistent long-term returns.

Amongst the main detractors in July, there was little of concern longer term. **Australian Finance Group** drifted lower on little news. **Omni Bridgeway** is seeing the deferral of revenue and profits due to covid disruptions to court procedures (timing issue). **Maas Group** is a small holding in the fund and announced a capital raising to finance several acquisitions. We didn't participate in the raising and the stock drifted lower as the additional shares on issue are digested. Many recent capital raisings have traded softer in the after-market and we remain selective of those in which we participate. In some cases this short term weakness presents an opportunity where the fundamentals are attractive.

August is an important month for the Australian equity market as most listed companies report their financial results for the year to June 30. Profits are a key driver of share prices, so stocks tend to move on these results. We undertake a heavy schedule of meetings with companies during this period and typically find several new ideas for the portfolio.

Top Contributors (Absolute)	Sector
BHP	Materials
Pinnacle	Financials
NIB Health	Financials
Top Detractors (Absolute)	Sector
Australian Finance Group	Financials
Omni Bridgeway	Financials
Maas Group	Industrials
Platforms	
Asgard, Ausmaq, Beacon, BT Wrap, First Wrap, Hub24, IOOF, Global One, Macquarie Wrap, Netwealth, Powerwrap, Symetry, Wealthtrac	

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