

# Prime Value Emerging Opportunities Fund Update – August 2021



- August was a solid month for global markets supported by dovish commentary from the US Federal Reserve and corporate earnings.
- The fund returned +5.3% in August, 0.3% above the Small Ordinaries Accumulation Index of +5.0% and 4.6% above the benchmark of +0.7% (8% p.a.). 3 year historical returns are 20.8% (after fees), 10.7% above the index with significantly lower volatility.
- We continue to find new ideas and added multiple new stocks to the portfolio in recent weeks. All are high quality businesses very attractively priced and should deliver strong returns in future years.

	Total Return*	Benchmark (8% pa)	Value Add
Since Inception (p.a.)	<b>16.9%</b>	8.0%	8.9%
5 Years (p.a.)	<b>15.0%</b>	8.0%	7.0%
3 Years (p.a.)	<b>20.8%</b>	8.0%	12.8%
2 Years (p.a.)	<b>28.6%</b>	8.0%	20.6%
1 Year	<b>37.1%</b>	8.0%	29.1%
3 Months	<b>9.2%</b>	2.0%	7.2%
1 Month	<b>5.3%</b>	0.7%	4.6%

\* 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.

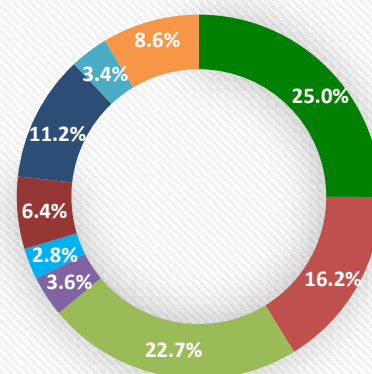
	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	FYTD	ITD
FY 2016				2.5%	6.3%	0.7%	(0.2%)	(3.9%)	2.4%	3.3%	2.4%	(0.2%)	<b>13.8%</b>	<b>13.8%</b>
FY 2017	7.4%	2.5%	1.6%	(0.3%)	(6.0%)	(2.0%)	1.1%	(1.6%)	1.8%	(1.8%)	(1.2%)	2.5%	<b>3.4%</b>	<b>17.6%</b>
FY 2018	1.3%	1.8%	2.3%	2.7%	1.5%	3.9%	(0.8%)	0.6%	(2.2%)	(0.5%)	3.9%	3.4%	<b>19.0%</b>	<b>40.0%</b>
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%)	<b>1.2%</b>	<b>41.7%</b>
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%	<b>18.1%</b>	<b>67.3%</b>
FY 2021	3.6%	6.0%	0.2%	0.7%	9.0%	3.2%	0.7%	0.6%	1.4%	7.0%	0.6%	3.1%	<b>42.0%</b>	<b>137.6%</b>
FY 2022	0.6%	5.3%											<b>5.9%</b>	<b>151.7%</b>

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

\* The top five holdings make up approximately 20.9% 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

## Holdings by Sectors



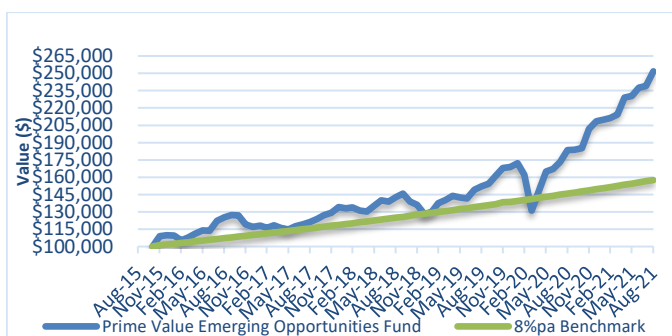
## Market review

August saw positive returns for global markets with the S&P 500 and MSCI Developed Market World Indices +3.0% and +2.7%, respectively. The US market had its seventh consecutive positive month in August, with the Nasdaq Composite Index +4.0% and the Dow Jones Industrial Average Index +1.2%. The FTSE 100 Index was +1.2% in August for its best monthly performance since April. The S&P 500 Index posted its longest winning streak since a 10-month run ended in December 2017. August was also the benchmark's 9th positive month in the last 10.

Global bond yields retraced in August, with the US 10-year government bond yield falling 21bp to 1.23%. Notably the US Federal Reserve Chairman Jerome Powell provided dovish commentary on 30 August.

Brent Oil prices dropped \$3/bbl to \$73/bbl, as global concerns around the Delta variant spread. Iron ore prices also fell \$US34/Mt to \$US156\$/Mt, on the back of Chinese steel demand weakening. Interestingly, Gold prices dropped to \$1,815 (-US\$11).

Despite a pull-back in resource stocks, the Australian share market extended its run to 11 months of consecutive positive returns. In August small/mid-caps stocks performed better than large caps and industrial stocks outpaced resources across all index sizes. The ASX300 Accumulation Index rose by 2.6% in August, slightly underperforming against the DM World's return of 2.7% in local currency terms. In Australia, the best performing sectors were Information Technology (+17.0%), Consumer Staples (+6.9%), and Health Care (+6.8%). The sectors which underperformed most were the Materials (-7.3%), Energy (-3.9%) and Utilities (+1.0%).



This graph shows how \$100,000 invested at the Fund's Inception has increased to \$251,700 (net of fees). This compares with the return of the benchmark, where a \$100,000 investment would have increased to \$157,500 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
APIR Code	PVA0013AU
Minimum Investment	\$20,000
Issue price	\$2.2408
Withdrawal price	\$2.2230
Distribution (30/06/2021)	\$0.0450
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 +5.3% in August, above the Small Ordinaries Accumulation Index of +5.0% and the benchmark of +0.7%.

Key positive contributors for the month were **Uniti Group** (UWL +24.4%), **Pinnacle Investment** (PNI +31.1%) and **Mainfreight** (MFT +14.6%). Key detractors were **Bapcor** (BAP -11.2%), **Alliance Aviation** (AQZ -7.0%) and **News Corp** (NWS -3.4%).

August is a key month on the financial calendar. Known as "reporting season", most companies publicly report their financial results for the period to June 30. Financial results drive share prices so it tends to be a month when share prices move more than usual. It's also a chance to meet the management of companies to discuss these results. We participated in hundreds of meetings in recent weeks. Overall we came away excited by the outlook for companies in the portfolio. We also added multiple new companies which we will discuss in future updates (we are still adding to our holdings). Only our best ideas make it into the portfolio and competition for spots is high. Consequently we are also exiting positions which are not quite as attractive. Overall we are reducing the number of companies and increasing the average size of each holding. The changes are not large and reflect the importance of keeping the portfolio "tight". This ensures our best ideas have meaningful weightings to drive the best future returns. Overall we hold around 40 stocks and the largest individual stock is approximately 5% of the portfolio.

Generally we are cautious of increasing the weighting of a stock that disappoints during reporting season. Watering weeds and pruning flowers generally doesn't yield the best crop. However the current environment of lockdowns is causing short term disruptions that are being reflected in share prices. We are willing to look through these short term issues where the longer term outlook is strong. Two recent examples include **Bapcor** and **Alliance Aviation**. These were the largest detractors to portfolio performance in August and we increased our weighting in both.

**Bapcor** distributes automotive parts to mechanics in Australia and New Zealand. Lockdowns in Sydney, Victoria and New Zealand have impacted demand in recent months. After previous lockdown the rebound has been strong, in fact often long waiting times for car servicing. Additionally car usage has increased through covid as people avoid public transport and holiday domestically. We believe Bapcor's longer term outlook is unaffected by recent trading disruptions so we added to our position.

**Alliance Aviation** used the severe aviation downturn in 2020 to purchase (not lease) 32 E190 Embraer aircraft at deeply discounted prices. Announced contracts by Alliance provide a line-of-site to the deployment of these aircraft and the earnings that will follow. Border closures have delayed some deployment, however vaccination rollout and state government policy moves away from covid eradication indicate this is a timing issue. We believe earnings growth will be very strong over coming years and valuation is very appealing.

Top Contributors (Absolute)	Sector
Uniti Group	Communication Services
Pinnacle Investment Management	Financials
Mainfreight	Industrials
Top Detractors (Absolute)	Sector
Bapcor	Consumer Discretionary
Alliance Aviation Services	Industrials
News Corporation	Communication Services
Platforms	
Netwealth, uXchange, Mason Stevens, Hub24	

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