

# Prime Value Growth Fund

## 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 +5.2% in August, 2.6% above the ASX300 Accumulation Index of +2.6%.
- 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.

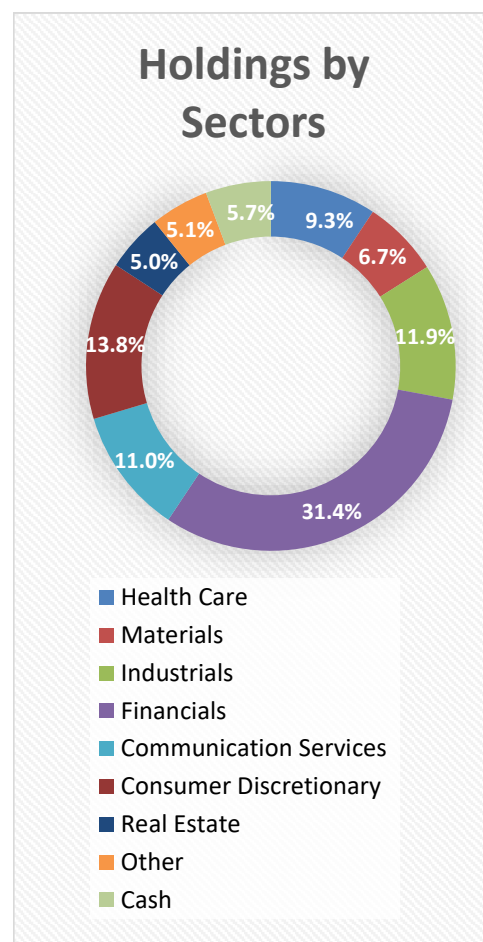
	Total Return*	S&P/ASX 300 Accumulation Index	Value Add
Since Inception (p.a.)	<b>11.4%</b>	8.7%	2.8%
5 Years (p.a.)	<b>8.6%</b>	11.1%	(2.5%)
3 Years (p.a.)	<b>8.1%</b>	10.1%	(2.0%)
2 Years (p.a.)	<b>15.1%</b>	10.6%	4.5%
1 Year	<b>33.5%</b>	28.6%	4.9%
3 Months	<b>10.2%</b>	6.1%	4.1%
1 Month	<b>5.2%</b>	2.6%	2.6%

\*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 performance is not necessarily an indicator of future performance.

Top five holdings	Sector
BHP Group	Materials
CSL Limited	Healthcare
Commonwealth Bank	Financials
Pinnacle Investments	Financials
Unifi Group	Communication Services

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



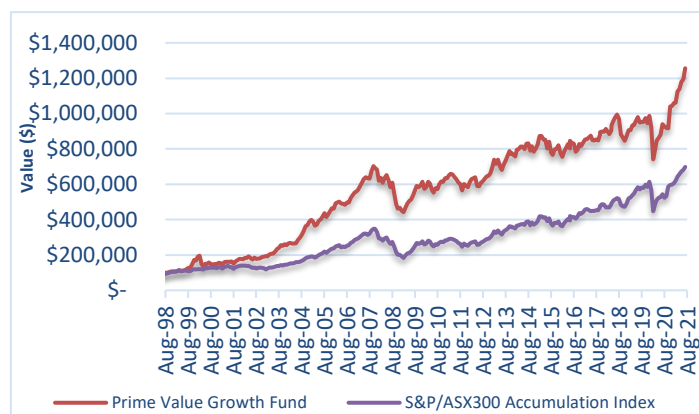
## Market review

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 \$1,256,300 (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 \$698,100 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	\$ 2.0431	\$ 2.0405
Withdrawal price	\$ 2.0277	\$ 2.0251
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 +5.2% in July, 2.6% above the ASX300 Accumulation Index of +2.6%.

Key positive contributors for the month were **Pinnacle Investment** (PNI +31.1%), **Uniti Group** (UWL +24.4%) and **City Chic** (CCX +15.0%). Key detractors were **BHP** (BHP -14.7%), **Bapcor** (BAP -11.2%) and **Alliance Aviation** (AQZ -7.0%).

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 investment returns.

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**.

**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 lockdowns the rebound has been strong and car usage has increased through covid as people avoid public transport. 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
Pinnacle Investment Management	Financials
Uniti Group	Communication Services
City Chic Collective	Consumer Discretionary
Top Detractors (Absolute)	Sector
BHP	Materials
Bapcor	Consumer Discretionary
Alliance Aviation Services	Industrials

Platforms
Asgard, Ausmaq, Beacon, BT Wrap, First Wrap, Hub24, IOOF, Global One, Macquarie Wrap, Netwealth, Powerwrap, Symetry, Wealthtrac

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