

Prime Value Diversified High Income Monthly Fund Update – January 2022



By Matthew Lemke, Fund Manager

- The Fund performed well in January, and although slightly below its target benchmark return, is well above the target benchmark return for the past 3, 6 and 12 months
- Markets continue to grapple with the direction of interest rates, and this is causing market volatility.
- The Fund has paid its normal monthly distribution of 0.42 cents unit in February.

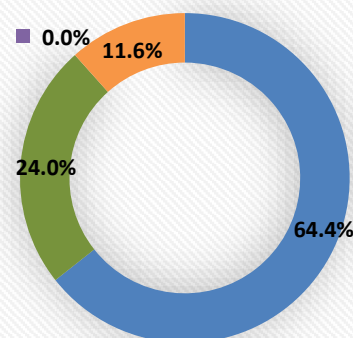
	Net Return*	Benchmark (RBA +4% p.a.)
Since inception (p.a.)	5.48%	4.33%
2 Years (p.a.)	5.46%	4.19%
1 Year	6.83%	4.12%
6 Months	3.37%	2.06%
3 Months	1.94%	1.04%
1 Month	0.37%	0.34%

* 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.

Feature	Fund Facts
Portfolio Manager	Matthew Lemke
Investment Objective	The Fund targets a net return to investors of 4.0% p.a. over the RBA official cash rate. This return may vary from month to month depending on the market and as funds are invested.
Benchmark	RBA Cash Rate + 4%
Inception Date	1 August 2019
Distributions	Monthly
Suggested Investment Period	1-2 years
Individual Security Maximum Exposure	The maximum exposure to any individual security is generally 25% of the portfolio. We expect any individual security holding to be generally under 15% of the portfolio; however where the Fund's portfolio manager identifies a good investment, and believes it is in the best interest of investors to hold more than 15% of the portfolio in this security, a higher 25% threshold is available.
Minimum Investment	\$50,000
Management Fee	0.85% ¹ p.a.
Performance Fee	15% of net performance above the RBA Cash Rate + 4% p.a
Issue price	\$1.0078
Withdrawal Price	\$1.0068
Distribution (31/01/22)	\$0.0042

¹The Fund may hold one or more unlisted trusts. We estimate that the Fund's estimated proportion of management fees charged to such unlisted trust(s) is 0.60% pa (indirect cost). The above 0.85% pa management fee excludes this indirect cost.

Holdings by Category



- Income Securities
- Unlisted Trusts
- Enhanced Income
- Cash

Fund review and strategy

The Fund performed well in January, and although slightly below its target benchmark return, is well above the target benchmark return for the past 3, 6 and 12 months. Of course, past returns are not an indicator of the Fund's future performance.

The Fund will pay its normal monthly distribution of 0.42 cents/unit in early February.

The Australian bond and credit markets are volatile as they try to reach a conclusion about the direction of interest rates. The market is trying to reconcile two factors that seem incongruent with the RBA's position that it will not hike the cash rate until the end of 2023:

- Headline CPI in Australia remains above 3% which is higher than the RBA's 2-3% target band for inflation;
- Both the Bank of England and the Reserve Bank of New Zealand have hiked rates recently with US Fed widely expected to hike rates shortly, possibly as early as next month.

Of course, the RBA is quite at liberty not to follow other countries as our economic situation is different to other countries and the pandemic is still with us. Further Covid variants are quite possible. As well, it is worth remembering that the RBA's statutory role is to keep inflation within a 2-3% band over the medium-term and not respond merely to quarterly CPI data.

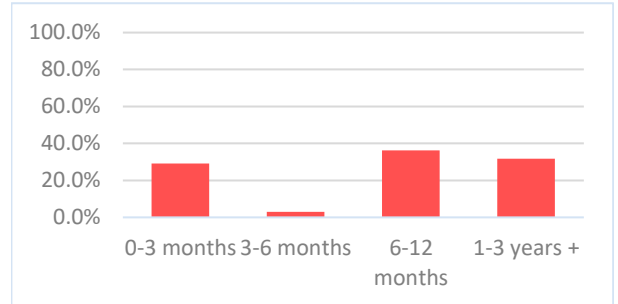
Against this uncertain background, we can expect markets to continue to show periods of volatility throughout 2022. However, our broad conclusion is that as we are gradually entering a new cycle of higher interest rates. Longer-term bond yields in Australia have risen with international bond yields, but short-term money market rates are following the RBA cash rate and remain near all-time lows. These low interest rates have been supporting equity and property markets. Certainly, the next step for short-term rates is up, not down, but the major questions are 'when?' and 'how far?'. The RBA does not believe the rise in inflation above 3% is structural (long term) and its central forecast is that it will fall back to the mid- to low- 2% area later this year and next. This forecast on inflation is echoed by many bank and other economists. However, if the RBA does hike rates this year, which is not out of the question, we only see a very modest cycle with the cash rate not moving much above 1% and not to the 1.75% level seen in 2017-2019 before the precipitous fall in rates once the pandemic began in late-2019.

The Fund is well-positioned for any increase in interest rates as the coupon or interest rate of some of the assets in the portfolio resets on average every 6 months. Hence, the Fund will generally participate in, and benefit from, any increase in rates.

The Australian Federal Election must be held some time before May this year. We do not expect any major impacts to the Fund from the Election. However, we will be carefully reading all policy announcements from the political parties contesting the Election as the policies are announced.

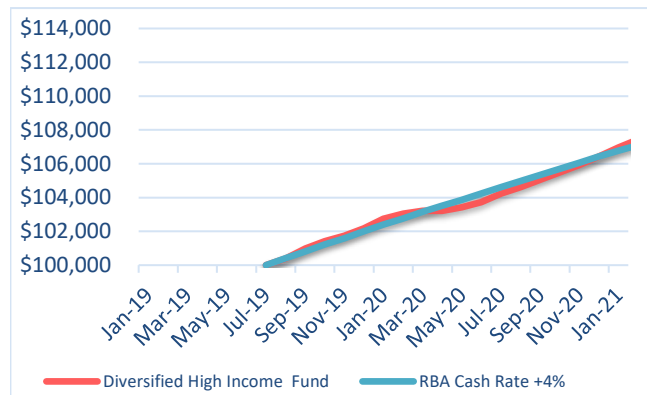
We continue to approach very cautiously any new investments in the Fund, and apply very rigorously our strict investment criteria to all assets in the Fund on an ongoing basis. We maintain a portfolio of diverse and quality assets, with strict criteria around asset allocation and constraints on how much is invested in any particular sector or asset category.

Interest Rate Reset Management



The Fund's portfolio weighted average interest rate reset duration is approximately 0.77 years.

Fund Performance



This graph shows how \$100,000 invested at the Fund's inception has increased to \$114,270 (net of fees). This compares with the return of the RBA cash rate +4% p.a., where a \$100,000 investment would have increased to \$111,170 over the same period.

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.

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