

# Prime Value Diversified High Income Monthly Fund Update – February 2022



By Matthew Lemke, Fund Manager

- The Fund performed well in February despite the volatility in global investment markets due to the move higher in credit spreads, rising inflation, higher expectations for rate hikes globally, and the Russia-Ukraine war that broke out at the end of February.
- We have increased the Fund's cash level to 13% to focus on capital preservation, as we did during the early stage of the Covid pandemic.
- The Fund will pay the normal 0.42 cents/ unit distribution in early March and expect this distribution rate to continue.

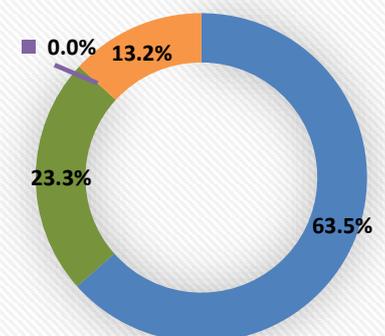
	Net Return*	Benchmark (RBA +4% p.a.)
Since inception (p.a.)	<b>5.44%</b>	4.31%
2 Years (p.a.)	<b>5.48%</b>	4.17%
1 Year	<b>6.72%</b>	4.12%
6 Months	<b>3.20%</b>	2.01%
3 Months	<b>1.86%</b>	1.00%
1 Month	<b>0.34%</b>	0.03%

\* 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% <sup>1</sup> p.a.
Performance Fee	15% of net performance above the RBA Cash Rate + 4% p.a
Issue price	\$1.0070
Withdrawal Price	\$1.0060
Distribution (28/02/22)	\$0.0042

<sup>1</sup>The 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 February despite the volatility in global investment markets and moves higher in credit spreads, rising inflation, expectations for rate hikes globally, and the Russia-Ukraine war that broke out at the end of February.

The volatility in global markets is due to two factors. Firstly, strong inflation readings globally with rising forecasts for central bank rate hikes, and secondly, the Russia - Ukraine war.

The situation between Russia and Ukraine has escalated to an actual war between the two countries. The situation is still extremely fluid with Russian attacks occurring daily. The situation is quite complicated, taking into account the number of Russian citizens that live in the Ukraine, and the commercial economic interests that Russia has in Ukraine. Moreover, there are significant geopolitical issues, such as Ukraine's application for NATO membership; Russia's supply of gas to western Europe (35% of total western Europe gas requirements) along with interruptions to many essential commodities and materials, causing major concerns for heating of homes in the European winter/autumn months; and the impact to general industrial activity in western Europe and further abroad.

The Russia - Ukraine war has caused crude oil prices to spike to US\$100/barrel – this will potentially further exacerbate inflation globally, putting more pressure on central banks to raise rates, although the potential effects of a prolonged war and the ongoing pandemic on industrial production may mean central banks pause for a time. The overall economic and financial consequences of the war are unknown at this stage.

Although the war is in another part of the world far away from Australia and other non-European countries, the consequences are likely to spread the longer the war goes on. Hence, there may well be quite significant ramifications flowing through to Australia, our economy and financial markets.

Fortunately, the securities held by the Fund (banks/ financials) are not being as negatively impacted as many other securities in the market.

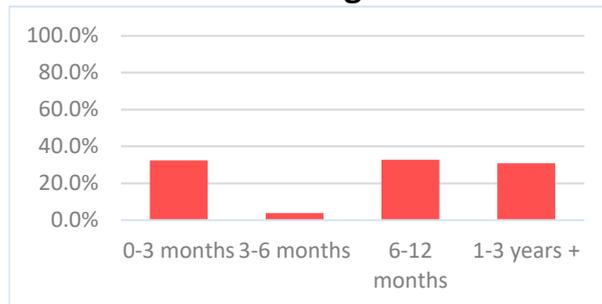
There is no end in sight to the Russia - Ukraine situation. Many countries including Australia are becoming involved in supporting Ukraine either directly or indirectly with means such as military and financial/ economic support. Furthermore, many countries are moving to impose sanctions against Russia and even preventing the Russian central bank and Russian commercial enterprises from using the international payments system (SWIFT).

The war and higher inflation expectations have negatively impacted global bond markets and credit spreads overseas and in Australia. The RBA has constantly been saying that it will not raise rates until late-2023. Clearly, the pressure is mounting on the RBA to hike earlier. This would follow the recent rate hikes by the Bank of England and the Reserve Bank of New Zealand. The Federal Election in Australia may delay any moves by the RBA, along with the outbreak of war between Russia and Ukraine. The market is actively talking about a 50bp rate hike when the US Fed meets in mid-March and 1.5% - 1.75% of rate hikes this year, more than previous estimates.

We continue to manage the Fund in a very conservative manner, with our major strategy to continue to pay a distribution rate of 0.42 cents/ unit each month and protect the unit price of the Fund. All assets in the portfolio of the Fund are subject to daily scrutiny against our strict investment criteria, as are any new asset purchases. The assets in the Fund are performing well.

The great strength of the Diversified High Income Fund is that the portfolio is diversified across a wide range of security types, industries and sectors. Hence, the Fund is robust in the face of global circumstances where the ramifications simply cannot be foreseen.

## 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 \$114,660 (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 \$111,510 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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