Prime Value Enhanced Income Fund
Monthly Fund Update – February 2022

- The Fund had a difficult month in February due to significant volatility in global investment markets with the move higher in credit risk and credit spreads, rising inflation, the outlook for rate hikes globally, and the Russia – Ukraine war that began at the end of February.
- We may pare back the distribution for the March quarter as part of adopting a conservative strategy to protect the unit price of the Fund while these factors will continue.
- Although there is no end in sight to the Russia-Ukraine war, at some stage in coming weeks or months there will be a resolution, markets will settle down.

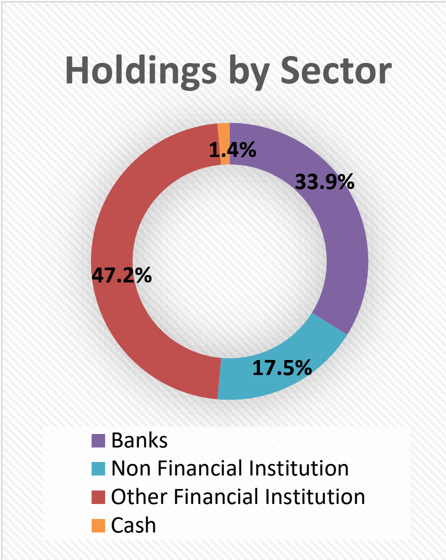
	Net Return*	Net Return including Franking Credits**	90 Day Bank Bill Rate (BBSW)
Since inception (p.a.)	**2.74%**	3.21%	1.43%
5 Years (p.a.)	**2.25%**	2.72%	1.00%
3 Years (p.a.)	**1.64%**	1.94%	0.44%
1 year	**1.42%**	1.50%	0.04%
6 Months	**0.22%**	0.22%	0.03%
3 Months	**0.20%**	0.20%	0.01%
1 Month	**-0.15%**	-0.15%	0.01%

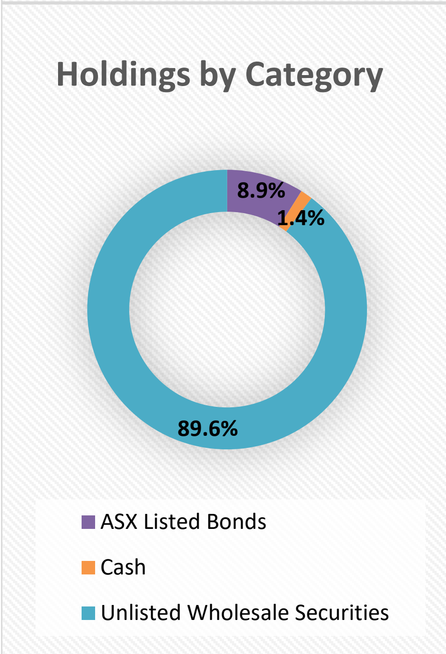
* Performance figures have been calculated in accordance with the Financial Services Council (FSC) standards. No allowance has been made for taxation. Performance assumes the reinvestment of income distributions. Past performance is not necessarily an indicator of future performance. Net returns are calculated after management fees. **Returns grossed up for Franking Credits are estimates.

Major Holdings	Sector	Category
NAB	Banks	Wholesale Notes
Westpac	Banks	Wholesale Notes
CBA	Banks	Wholesale Notes
ANZ	Banks	Wholesale Notes
Bank of Queensland	Banks	Wholesale Notes

Feature	Fund Facts
APIR Code	PVA0009AU
Portfolio Manager	Matthew Lemke
Investment Objective	To provide regular income with low risk of capital loss in the medium term (appreciating that the Fund's unit price will vary with market factors and other factors affecting the prices of securities in the investment portfolio). The Fund targets a return to investors of 1.5% over the 90 day BBSW rate (this benchmark rate was previously the Reserve Bank of Australia's cash rate).
Benchmark	90 day BBSW rate (this benchmark rate was previously the Reserve Bank of Australia's cash rate). The benchmark rate was changed to better reflect the Fund's objectives.
Inception Date	3 June 2014
Interest Rate Reset Duration	Approx. 0.25 years
Distributions	Quarterly
Suggested Investment Period	1 + year
Minimum Investment	$50,000
Indirect Cost Ratio (ICR)	0.60%[1] p.a.
Issue price	$0.9932
Withdrawal Price	$0.9928
Distribution (28/02/22)	$0.0040

[1] Unless otherwise stated, all fees quoted are inclusive of GST and less the relevant RITC





Fund review and strategy

The Fund had a difficult month in February as markets experienced significant volatility and credit spreads globally moved higher, impacting the prices of securities in the portfolio. Over 90% of securities in the portfolio, or the issuer of those securities, are rated “investment-grade”. The price effects on the portfolio are not due to specific security problems but moreover the overall macro-environment that exists at the moment.

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, into our economy and financial markets.

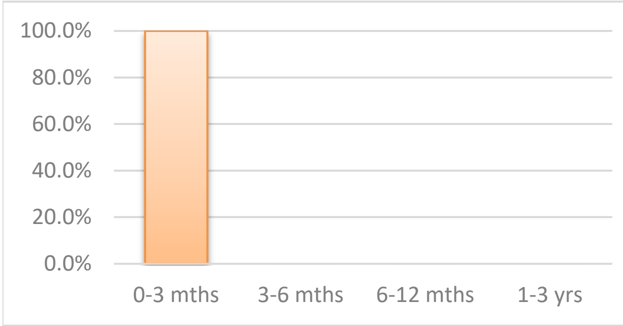
Fortunately, the securities held by the Fund (banks/ financials) are not being as negatively impacted as many other securities in the market.

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.

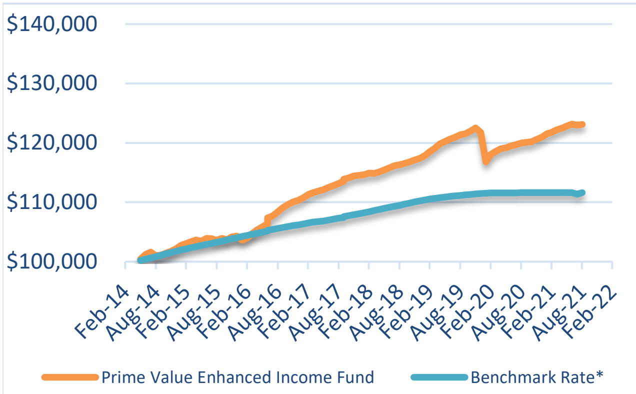
We continue to manage the Fund in a very conservative manner, with our major strategy to stabilise the unit price of the Fund. This strategy may involve lowering the distribution for the March quarter. Such an outcome would purely be to bolster the fund against the volatility being experienced in global investment markets. We believe a very conservative approach is warranted in the circumstances.

Interest Rate Reset Management



The Fund’s portfolio weighted average interest rate reset duration is approximately 0.25 years. The majority of interest rates are reset every quarter. Securities with interest rates reset every quarter are not exposed to the risk of interest rate increases, unlike fixed rate investments.

Fund Performance



This graph shows how $100,000 invested at the Fund’s inception has increased to $123,270 (net of fees). This compares with the return of the benchmark rate, where a $100,000 investment would have increased to $111,650 over the same period.

*the Benchmark Return was calculated by reference to the RBA Official Cash Rate until December 2020 but thereafter by reference to the 90 day BBSW rate

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.

Contact details:

Alyssa Hennessy, Riza Crisostomo, Julie Abbott and Dora Grieve

Client Services Team
Phone: 03 9098 8088
Email: info@primevalue.com.au
Web: www.primevalue.com.au

Mail:

Prime Value Asset Management Ltd
Level 9,
34 Queen Street
Melbourne
VIC 3000