Prime Value Diversified High Income Monthly Fund Update – April 2022

By Matthew Lemke, Fund Manager

- The Fund performed well in April with a return of 0.40% for thew month, and will distribute the normal 0.42 centrs/units in early May.
- Investment markets were again difficult in April but the Fund benefits from only having a very small percentage of its portfolio in the traded and listed markets where the market volatility is being experienced.
- The RBA delivered a 0.25% rate hike on 3 May after the very high March quarter CPI (5.1%) release on 27 April. We expect the rate hike cycle in Australia to be mild given the inflation shock is mainly supply-side driven. The Fund benefits overall from higher rates.

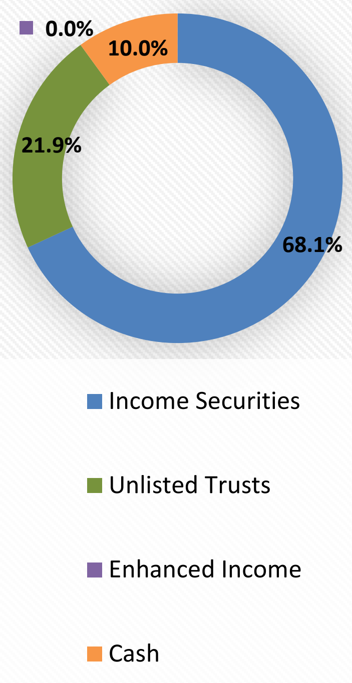
	Net Return*	Benchmark (RBA +4% p.a.)
Since inception (p.a.)	**5.43%**	4.29%
2 Years (p.a.)	**5.85%**	4.13%
1 Year	**6.56%**	4.09%
6 Months	**3.17%**	2.02%
3 Months	**1.21%**	0.97%
1 Month	**0.40%**	0.32%

* 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	$1.0073
Withdrawal Price	$1.0063
Distribution (30/04/22)	$0.0042

[1]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



Fund review and strategy

Despite the volatility in the listed and traded investment markets in April, the Fund recorded another good performance of 0.40% for the month and will distribute its normal 0.42 cents/unit in early May.

Generally, the Fund benefits from two key factors: (i) the quality and diversity of assets in its portfolio and (ii) only having a very small percentage in the listed/ traded market where the market volatility is being felt.

Fixed interest markets were again difficult in April as the market tried to digest the financial implications of the Russia-Ukraine war now in its third month, and the heightened inflation data around the world, suggesting a stronger tightening cycle than otherwise thought in many western industrialised economies and in Australia. The worry that has come into markets in the last few weeks is whether the various economies around the world can adequately handle the extent of the forecasts for interest rate hikes that are being forecast by the market by the US Fed, Bank of Canada, Bank of England and the Reserve Bank of New Zealand to name, and now, the RBA. There has been active market talk in the US and the UK for example of the dilemma of rate hikes when there is a reasonable chance of an economic slowdown.

In Australia, the March quarter CPI was released on April 27 and recorded an unexpectedly high rate of 5.1% year-on-year. The major banks and many market economists immediately brought their forecasts for the first RBA rate hike forward to the RBA's policy meeting on 3 May. In the event, the RBA hiked the cash rate by 0.25% taking the cash rate to 0.35%, its first hike in over a decade, but still a very low rate by any historical comparison.

More hikes are expected. The median market estimate for the official cash rate is for it to move to 1.75% by late-2023, with the lowest forecast being 0.75% and the highest being 3%. In our view, it is difficult to see how the cash rate will be increased much more than 1% given that, although the economy is running at almost 'full employment' with an unemployment rate of ca. 4%, the inflation shock is mainly supply-side driven and not demand-side. In other words, RBA rate hikes and flow-on to business loan and mortgage rate increases coupled with the higher petrol and retail prices will directly impact consumers and economic growth. Consumers would take these prices rises and higher rates in their stride if their wages and salaries were going up too, but this is not the case. Hence, our feeling is that this tightening cycle by the RBA will be quite mild - the RBA will not want to cause a negative impact to the economy. Our view is that the economy can comfortably handle 1% of rate hikes. If more than 1% of rate hikes are ultimately delivered, we expect this will be in distinct stages as the RBA sees how the economy is handling the rate hikes.

The Diversified High Income Fund broadly benefit from rate hikes. Even though the Fund's assets are not directly tied to rates in the short-term money market, the Fund does participate in higher rates over time as interest rates on assets in the portfolio, particularly the mortgage loans, move higher and as those loan assets mature and other loan assets are introduced into the portfolio based on the higher prevailing interest rate levels.

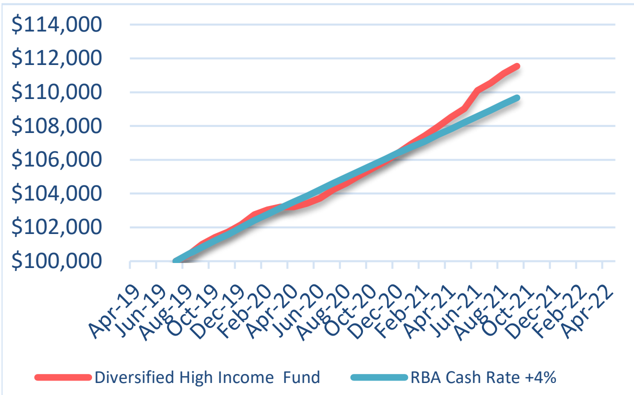
We are monitoring markets very closely as we enter this new paradigm of higher interest rate globally and in Australia having been at all-time lows over the last 2-3 years. We expect traded and listed markets to be volatile for a while given that the June quarter CPI to be released late-July can also be expected to be a high number. We do not expect to buy any securities in the traded/ listed market at this stage.

We are watching very attentively the way the US Fed raises rates – the Fed hiked rates again on 3 May (their third rate hike in recent months) with more hikes expected. We are also carefully watching the economic slowdown occurring in China (due to the rapid increase in Covid cases), and the economic slowdown in the UK and Europe (due mainly to the Russia-Ukraine war and particularly the flow-on effects of that conflict to food and energy prices).

At this stage, the Federal Election on 21 May is not having any noticeable impact on markets. However, we are watching events unfold and particularly as policies of the major parties are released. An ALP victory and/or a "hung" parliament would both be mildly negative for markets in Australia.

We again thank you for your support. Please do not hesitate to contact us if you would like more information or would like to talk to the Fund Manager, Matthew Lemke.

Fund Performance



This graph shows how $100,000 invested at the Fund's inception has increased to $115,650 (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 $112,250 over the same period.

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