Prime Value Enhanced Income Fund
Monthly Fund Update – April 2022

PrimeValue®
Building Wealth Together

- Markets were again difficult in April affecting the Fund's performance, however the longer-term returns are above the target benchmark.
- RBA delivered a 0.25% rate hike on 3 May after the very high March quarter CPI (5.1%) release on 27 April. The Fund overall benefits from higher interest rates.
- We expect the rate hike cycle in Australia to be mild – possibly only 1% of rate hikes in total - given the inflation shock is mainly supply-side driven and therefore do not expect any further rise in credit spreads - this will benefit the Fund.

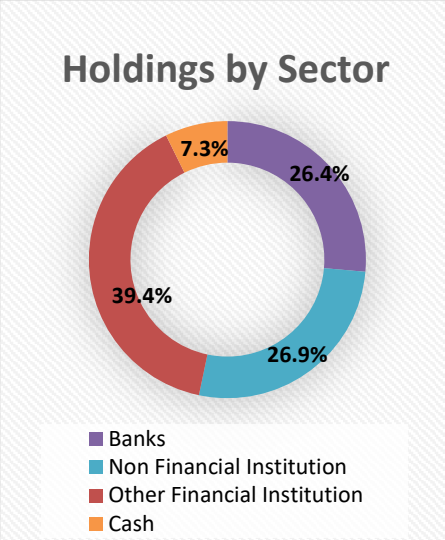
	Net Return*	Net Return including Franking Credits**	90 Day Bank Bill Rate (BBSW)
Since inception (p.a.)	**2.55%**	3.01%	1.41%
5 Years (p.a.)	**1.86%**	2.29%	0.95%
3 Years (p.a.)	**0.97%**	1.22%	0.35%
1 year	**-0.13%**	0.09%	0.08%
6 Months	**-0.88%**	-0.88%	0.07%
3 Months	**-0.16%**	-1.16%	0.05%
1 Month	**-0.16%**	-0.16%	0.03%

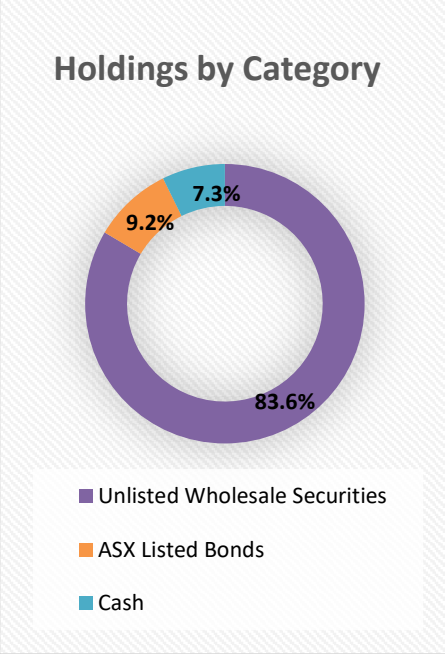
* Performance figures have been calculated in accordance with the Financial Services Council (FSC) standards. No allowance has been made for taxation. Performance assumes the reinvestment of income distributions. Past performance is not necessarily an indicator of future performance. Net returns are calculated after management fees. **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	$0.9820
Withdrawal Price	$0.9816
Distribution (31/03/22)	$0.0012

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





Fund review and strategy

The 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 anticipated interest rate hikes by the US Fed, Bank of Canada, Bank of England and the Reserve Bank of New Zealand to name a few, 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 Fund benefits from increases in interest rates because on average the interest rate on securities in the portfolio resets every 3-4 months so the Fund participates in rate increases. The rate that primarily drives the Enhanced Income Fund's interest rate resets is the 3 month BBSW and this rate has moved considerably higher in recent days to 0.92% reflecting the RBA's anticipated rate hikes. Any negative impact to the Fund, as has been occurring in the last 5-6 months, can only come through higher credit spreads. If the tightening cycle is mild as we expect then credit spreads will not be under pressure. The portfolio is well positioned to benefit from higher interest rates and a stabilisation of credit spreads.

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 in the last 2-3 years. We expect interest rate 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.

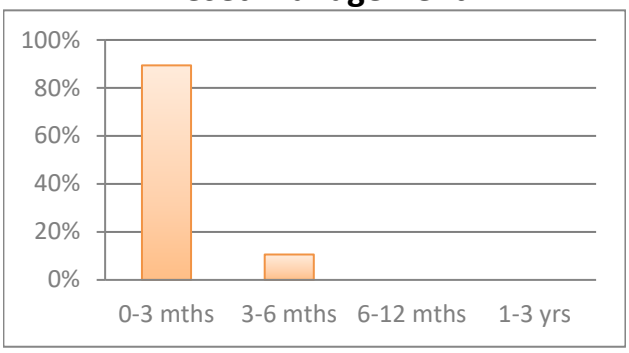
We are watching very attentively the way the US Fed raises rates – the Fed has hiked the Fed Funds Rate three times with more hikes expected. We are also carefully watching the economic slowdown occurring in China (due to the rapid increase in Covid cases), and the economic slowdown in the UK and Europe (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 remind investors to look at the Fund's performance on a 1-2 year basis as set out in the PDS. It is important not to judge the Fund on a short-term monthly or quarterly basis. The Fund is performing well on a 2-5 year basis and we expect this performance to continue.

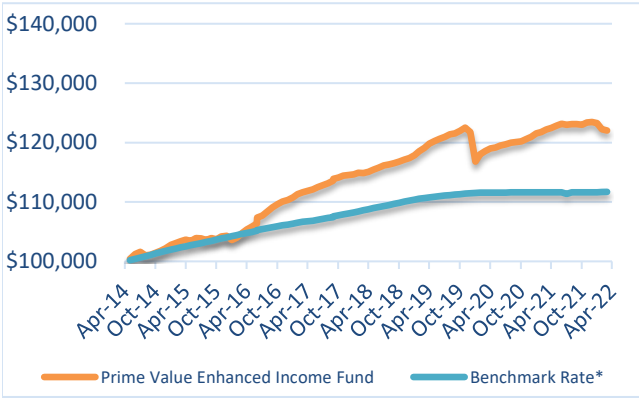
We thank you for your support of the Fund and would welcome any questions or comments that you may have. As always, we are more than happy to arrange a conversation with the Fund Manager, Matthew Lemke, at any time if you thought this would be worthwhile.

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 $122,003 (net of fees). This compares with the return of the benchmark rate, where a $100,000 investment would have increased to $111,700 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.

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