

# Prime Value Opportunities Fund

## Fund Update – May 2022



- Global equity markets were mixed to negative as inflationary pressures weighed on investor sentiment.
- The Australian share market lagged its peers in May, with the ASX300 Accumulation Index falling 2.8%. Resources stocks underpinned the market performance as commodities are viewed as a hedge against inflation.
- The Fund fell 4.8% in May.

	Total Return*	Benchmark (8% pa)	Value Add
Since inception (p.a.)	<b>10.2%</b>	8.0%	2.2%
7 Years (p.a.)	<b>7.6%</b>	8.0%	-0.4%
5 Years (p.a.)	<b>7.6%</b>	8.0%	-0.4%
3 Years (p.a.)	<b>7.7%</b>	8.0%	-0.3%
2 Years (p.a.)	<b>12.6%</b>	8.0%	4.6%
1 Year	<b>-0.7%</b>	8.0%	-8.7%
3 Months	<b>0.3%</b>	2.0%	-1.7%
1 Month	<b>-4.8%</b>	0.7%	-5.5%

\* Fund returns are calculated net of management fees, assuming all distributions are re-invested. Performance figures have been calculated in accordance with the Financial Services Council (FSC). The returns are calculated before performance fees which are charged against individual accounts. The returns exclude the benefits of imputation credits. Past performance is not necessarily an indicator of future performance.

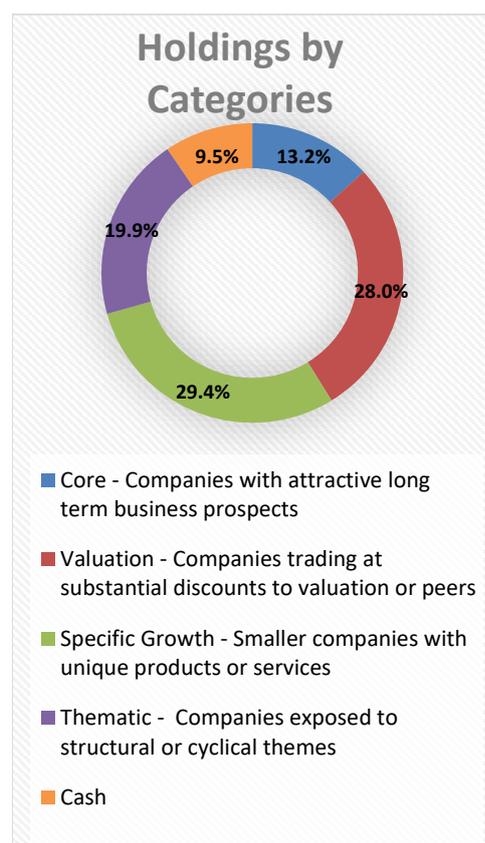
	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	FYTD	ITD
FY 2013					1.8%	1.7%	4.3%	6.2%	(0.6%)	4.0%	(2.2%)	(1.6%)	<b>14.1%</b>	<b>14.1%</b>
FY 2014	4.4%	2.6%	4.3%	5.0%	(1.1%)	1.5%	(1.9%)	5.9%	0.2%	0.3%	0.3%	(1.4%)	<b>21.4%</b>	<b>38.5%</b>
FY 2015	2.5%	1.0%	(4.1%)	3.1%	(1.9%)	0.7%	1.5%	5.7%	1.4%	(1.0%)	0.5%	(4.3%)	<b>4.6%</b>	<b>44.9%</b>
FY 2016	5.3%	(3.7%)	0.1%	5.5%	1.7%	2.4%	(3.4%)	(1.9%)	3.6%	2.3%	4.4%	(1.8%)	<b>14.9%</b>	<b>66.5%</b>
FY 2017	6.5%	(1.7%)	(0.5%)	(4.9%)	(0.2%)	2.7%	(1.1%)	2.4%	2.1%	1.3%	(1.2%)	1.2%	<b>6.3%</b>	<b>77.0%</b>
FY 2018	(1.2%)	1.0%	0.4%	4.2%	1.6%	0.4%	(0.2%)	2.5%	(2.5%)	3.0%	2.1%	2.4%	<b>14.3%</b>	<b>102.4%</b>
FY 2019	1.7%	2.6%	(1.9%)	(8.2%)	(1.9%)	(1.8%)	3.2%	3.4%	0.2%	2.9%	0.3%	2.6%	<b>2.5%</b>	<b>107.5%</b>
FY 2020	2.9%	(2.3%)	0.2%	1.0%	3.0%	(2.0%)	4.9%	(5.8%)	(16.8%)	8.0%	5.4%	3.0%	<b>(1.1%)</b>	<b>105.2%</b>
FY 2021	1.6%	4.1%	(3.6%)	0.5%	7.9%	2.1%	(0.1%)	2.3%	1.5%	4.6%	1.3%	3.0%	<b>27.7%</b>	<b>162.0%</b>
FY 2022	0.9%	3.9%	-1.4%	0.3%	0.6%	1.9%	(7.3%)	(2.5%)	5.7%	-0.3%	-4.8%		<b>-3.5%</b>	<b>152.6%</b>

Top five holdings	Sector
NAB	Financial
CSL Limited	Health Care
Commonwealth Bank	Financials
Macquarie Bank	Financials
Goodman Group	Real Estate

The top five holdings make up approximately 26.7% of the portfolio

Feature	Fund facts
Portfolio Manager	ST Wong
Investment Objective	To achieve superior absolute total returns by providing medium to long term capital growth without the constraints of a share market benchmark.
Benchmark	8.0% pa
Inception Date	5 November 2012
Cash	0 - 100%
International Exposure <sup>#</sup>	0 - 20%
Distributions	Half-yearly
Suggested Investment Period	3 + years
Research Rating	Zenith – Recommended Lonsec - Recommended

<sup>#</sup> The Prime Value SIV Opportunities Fund will have no exposure to international securities in accordance with SIV regulations



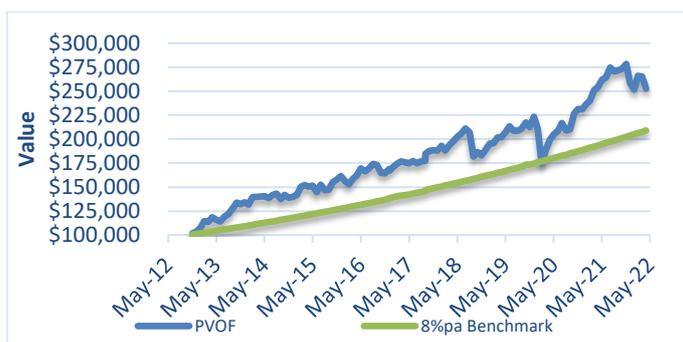
## Market review

Global equities had mixed results in May, with investors weighing up the willingness of central banks to tighten monetary policy aggressively. A major concern is the US Federal Reserve's sharp interest rate hikes could lead to a recession in the US—this is a not a current base case scenario although the risks are rising. The MSCI Developed Markets Index fell slightly (-0.2%), while the S&P500 Index lifted (+0.2%). Other developed market indices such as the FTSE100 and Euro Stoxx 50 also posted positive returns.

Australian 10-year yields sold off 22bps across May to 3.34%, as investors price in tightening monetary policy following rate hikes. In May, the RBA raised the cash rate by 25bps to 0.35% for the first time since 2010.

Brent oil prices finished May at US\$122/bbl, moving up US\$12 for the month. Iron ore demand remains solid with China pig iron production staying at the same level in the second half of May; however, we observe steel demand remains weak in China. Gold is holding reasonably well above US\$1,800, but the market has so far struggled to move far enough past US\$1,850. Policy tightening and rising global rates ultimately create headwinds, as the opportunity cost of holding gold increases.

With the exception of the Materials sector, all sectors in the ASX trended lower in May and even then, the Materials sector was up a modest, +0.14%. Investors appear to be pricing in a potentially more aggressive interest rate hikes on the ASX. On a sector basis, Utilities (-0.2%), and Industrials (-0.5%) also outperformed in Australia. The REITs (-8.7%), IT (-8.7%) and Consumer Staples (-6.6%) sectors relatively underperformed. Size favoured large, over mid and small cap indices, with the Small Ords Index observing a -7.0% return drawdown. At a stock level, BHP had the largest positive impact on performance, however Macquarie Group the largest negative contribution partly on account of going ex-dividends.



This graph shows how \$100,000 invested at the Fund's Inception has increased to \$252,600 (net of fees excluding performance fees). This compares very favourably with the return of the benchmark, where a \$100,000 investment would have increased to \$209,000 over the same period. The returns exclude the benefits of imputation credits.

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.

	Direct Investment (Class A)	Platform Investment (Class B)
APIR code	PVA0005AU	PVA0006AU
Minimum Investment	\$20,000	N/A
Issue price	\$ 1.7725	\$ 1.7350
Withdrawal price	\$ 1.6381	\$ 1.6403
Distribution (31/12/2021)	\$ 0.0470	\$ 0.0456
Indirect Cost Ratio (ICR)*	0.95% p.a.	0.95% p.a.
Performance fee**	15%	15%

\* Unless otherwise stated, all fees quoted are inclusive of GST and less the relevant RITC  
 \*\* Of performance (net of management fees) above the agreed benchmark, subject to a high water mark

## Fund review and strategy

The Fund fell 4.8% in May, underperforming the ASX300 Accumulation Index's 2.8% decline. The Fund's top May performance contributors included: BHP (+4.4%), Amcor (+8.5%) and Alliance Aviation (+7.4%). The top detractors from performance in May were: AUB Group (-18.0%), Goodman Group (-14.3%) and CSR (-23.9%). Whilst May was a difficult month for the portfolio, the Fund's category of Core companies – which shares similar characteristics of resilient growing businesses, backed by strong balance sheets and management teams – such as Amcor and CSL, has proven to be solid contributors to Fund performance during more challenging share market conditions. Amcor is a Core company that we have invested for approximately 10 years. The company supplies packaging to defensive end markets, such as food and beverages with 30% of sales from developing markets, which provides diversification and the opportunity for increased earnings growth vs. developed markets. Amcor has a strong balance sheet, positioning it well to navigate difficult markets.

Our investment strategy to seek out and invest in a group of strong Core companies is the key reason for the Fund's solid long-term record of outperforming in down markets. Since inception in 2012, the Fund has outperformed the ASX300 Accumulation Index 73% of the time the index posted negative months.

Outlook: Investors are currently having to deal with a period where central banks are removing unprecedented levels of quantitative easing at a time when interest rates are rising rapidly to counter inflationary pressures.

We began positioning the Fund for higher interest rates in the December quarter of 2021 with the following four actions, which has helped to limit Fund downside: (1) Reduced/sold positions that are vulnerable to higher interest rates and inflation such as Redbubble, City Chic and Pexa Group; (2) Build resilience: increased ownership of companies with resilient earnings and trading on attractive valuations such as CSL; (3) Seek opportunities: in quality companies that have been sold off excessively such as Kelsian; (4) Added to commodities exposure: to take advantage of beneficiaries of higher commodity prices.

We continue to position the portfolio with a view to navigating challenges posed by rising inflation and a slower economic outlook. Hence, we are ensuring the portfolio has exposure to business models with the ability to pass on higher costs of doing business and low levels of customer sensitivity to higher prices. Within the portfolio, we own companies that will benefit from a rising interest rate environment. Our cash balance has risen from a low point earlier in the year—the optionality our cash position offers positions the Fund well to capitalise on the opportunity to purchase quality companies, particularly in the small cap sector at compelling prices.

Top contributors (absolute)	Sector
BHP	Materials
Amcor	Materials
Alliance Aviation Services	Industrials

Top detractors (absolute)	Sector
AUB Group	Financials
Goodman Group	Real Estate
CSR Limited	Materials

Platforms	
BT Wrap, Macquarie Wrap, Netwealth, Hub24, Powerwrap	Prime Value Asset Management Ltd
Andrew Russell - Director, Investor Relations <a href="mailto:arussell@primevalue.com.au">arussell@primevalue.com.au</a>	Level 9, 34 Queen Street
Daniel Leong – Director, Investor Relations <a href="mailto:daniel.leong@primevalue.com.au">daniel.leong@primevalue.com.au</a>	Melbourne VIC 3000
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