

# Prime Value Emerging Opportunities Fund Update – July 2022



- July saw a rebound in global equity markets, driven by a positive US reporting season and paring back of interest rate hike expectations.
- The fund returned +8.1% in July, below the Small Ordinaries Accumulation Index of +11.4%, which was driven by risk-on sentiment that saw loss-makers comprise 8 of the top 10 returning stocks for the month. The fund does not typically invest in loss-making companies.
- The Emerging Opportunities Fund was pleased to debut in the Mercer survey ranked as the #1 small cap fund in Australia for the 3 years to June 2022. Further, the fund is the only small cap fund in Australia to rank 1<sup>st</sup> quartile in FY20, FY21 and FY22 – a difficult period for investors, comprising one bull market and two bear markets.

	Total Return*	Benchmark (8% pa)	Value Add
Since Inception (p.a.)	12.4%	8.0%	4.4%
5 Years (p.a.)	13.2%	8.0%	5.2%
3 Years (p.a.)	14.1%	8.0%	6.1%
2 Years (p.a.)	13.0%	8.0%	5.0%
1 Year	-7.4%	8.0%	-15.4%
3 Months	-5.2%	2.0%	-7.2%
1 Month	8.1%	0.7%	7.5%

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

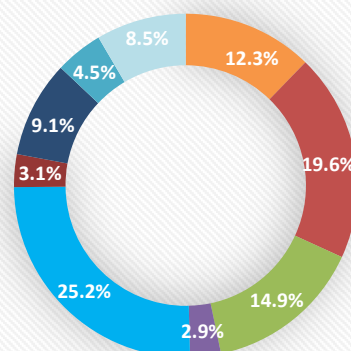
	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	FYTD	ITD
FY 2016				2.5%	6.3%	0.7%	(0.2%)	(3.9%)	2.4%	3.3%	2.4%	(0.2%)	13.8%	13.8%
FY 2017	7.4%	2.5%	1.6%	(0.3%)	(6.0%)	(2.0%)	1.1%	(1.6%)	1.8%	(1.8%)	(1.2%)	2.5%	3.4%	17.6%
FY 2018	1.3%	1.8%	2.3%	2.7%	1.5%	3.9%	(0.8%)	0.6%	(2.2%)	(0.5%)	3.9%	3.4%	19.0%	40.0%
FY 2019	(0.8%)	2.9%	2.1%	(4.8%)	(2.0%)	(5.8%)	1.5%	5.8%	1.9%	2.7%	(1.0%)	(0.6%)	1.2%	41.7%
FY 2020	5.3%	2.0%	1.5%	4.5%	4.2%	0.5%	1.9%	(5.8%)	(19.1%)	12.7%	11.6%	1.4%	18.1%	67.3%
FY 2021	3.6%	6.0%	0.2%	0.7%	9.0%	3.2%	0.7%	0.6%	1.4%	7.0%	0.6%	3.1%	42.0%	137.6%
FY 2022	0.6%	5.3%	(0.3%)	(1.4%)	(0.4%)	1.8%	(7.3%)	(1.5%)	2.6%	(0.7%)	(5.0%)	(7.8%)	-13.9%	104.6%
FY 2023	8.1%												8.1%	121.3%

Top five holdings (alphabetical order)	Sector
AUB Group	Financials
EQT Holdings	Financials
IPH Limited	Industrials
NIB Holding	Financials
Propel Funeral Partners	Consumer Discretionary

\* The top five holdings make up approximately 20.4 % of the portfolio

Feature	Fund facts
Portfolio Manager	Richard Ivers & Mike Younger
Investment objective	Achieve superior total returns by providing medium to long term capital growth by investing in smaller capitalisation companies.
Benchmark	8% p.a.
Inception date	8 October 2015
Typical number of stocks	25-50
Cash	0 - 100%
Unlisted Exposure	0 – 20%
International Exposure	0 – 20%
Distributions	Half-yearly
Suggested Investment Period	3 + years
Research Rating	Zenith – Recommended Lonsec – Investment Grade

## Holdings by Sectors



- Cash & Equivalents
- Financials
- Consumer Discretionary
- Consumer Staples
- Industrials
- Health Care
- Information technology
- Real Estate
- Communication Services

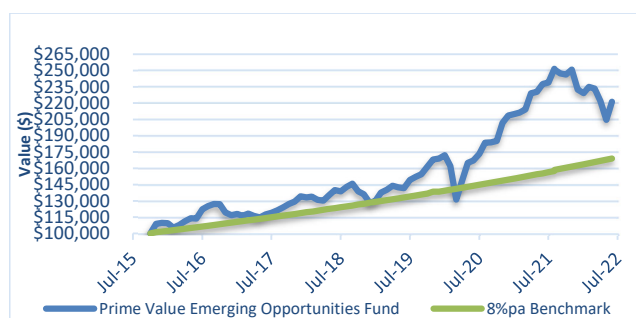
## Market review

Global equities rebounded in July, driven by a positive US reporting season and US GDP contraction, which softened investor expectations of the steepness of future interest rate hikes. The MSCI Developed Markets Index rose (+8.0%), driven by a strong month for the S&P 500 Index (+9.2%). European markets saw gains ranging from mid to high single digits, while the UK was up +4% and is the only share market with positive returns calendar year to date. Asian markets were mixed with Japan and South Korea up +5% each, but Hong Kong and China down -8% and -4%.

The RBA raised the cash rate by 50bps to 1.35% at its July meeting, as widely expected. Australian 10-year bond yields moved down 60bps across July to 3.06%, on the back of US 10-year bond yields falling 33bps to 2.64%, as the second quarter GDP decline moderated inflationary fears.

Commodity prices broadly fell in July. Brent Oil prices declined US\$5 to US\$110/bbl as bans on Russian shipments were delayed. Iron Ore prices also dropped US\$5 down to US\$118/Mt as Brazilian shipments hit record highs and demand remained soft. Gold fell by US\$60 to US\$1,753, as moderating inflation expectations saw investor risk sentiment rise.

Australian stocks rose in July as part of a global equities rally. The ASX300 Accumulation Index was up 5.9%, recouping just over 80% of the decline in June. The rise in equities was supported by a decline in bond yields as slowing GDP growth led interest rate markets to pare back expectations for interest rate hikes. All sectors bar Materials (-0.7%) were positive in the month with Info Tech (+15.2%) and Real Estate (+12.1%) increasing the most. Size favoured small, over large and mid cap indices, with the Small Ords Index posting a 11.4% rebound in the month. Industrials outperformed Resources, with the spread greatest within the large cap stocks.



This graph shows how \$100,000 invested at the Fund's Inception has increased to \$221,300 (net of fees). This compares with the return of the benchmark, where a \$100,000 investment would have increased to \$169,000 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
APIR Code	PVA0013AU
Minimum Investment	\$20,000
Issue price	\$1.8853
Withdrawal price	\$1.8703
Distribution (30/06/2022)	\$0.0353
Indirect Cost Ratio (ICR)	1.25%*
Performance fee	20%** p.a.
* 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 positive performance	

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## Fund review & strategy

With equity markets rebounding in July, the fund returned +8.1%, below the Small Ordinaries Accumulation Index of +11.4%. Risk-on sentiment saw loss-makers comprise 8 of the top 10 returning stocks for the month, such as Zip Co which rose +158% in July, but remains -83% over the past 12 months. The fund does not typically invest in loss-making companies, preferring to focus on those with more predictable earnings profiles.

Key positive contributors for the fund in July were **Austal** (ASB +48.9%), **SG Fleet** (SGF +21.9%) and **Pinnacle** (PNI +42.4%). Key detractors were **Alliance Aviation** (AQZ -9.8%), **EQT Holdings** (EQT -2.1%) and **nib Holdings** (NHF -1.9%).

**Austal** (ASB) shares jumped on news that the US Coast Guard had awarded it with a contract to design and construct 11 vessels at a potential value of US\$3.3bn. This helped calm market nerves around the company's ability to win steel shipbuilding programs, and will underwrite the recent investment in the company's new facility in Alabama. The good news continued later in the month, with the company also awarded a US\$156m contract from the US Navy for two steel vessels.

**SG Fleet** (SGF) rose on no news, noting the company similarly fell in June (-11%) on no new news. The company will provide an update on its progress in integrating LeasePlan ANZ in it's upcoming FY22 result. We expect this acquisition to provide significant value accretion for the company over the medium-term as material synergies are realised.

**Pinnacle** (PNI) provided a modestly positive update, highlighting solid performance fees achieved across its stable of funds for FY22. With the stock leveraged to equity markets, it was not a surprise that it performed strongly in July, just as it similarly performed poorly through the June quarter as the Small Ordinaries Index fell 20%.

**Alliance Aviation** (AQZ) fell on no new news, as the date of the ACCC's review of findings into it's proposed acquisition by Qantas was delayed from 28 July to 4 August (and later to 18 August). We note the stock was trading at \$3.22ps at the end of July, below both the Qantas bid (\$4.75ps) and the price it traded at prior to the bid (\$3.51ps).

While equity markets performed strongly in July, we would not be so bold as to declare the current bear market over, particularly given continued uncertainty over the level of inflation, interest rates and economic growth for the year ahead. Equity markets do not move in straight lines, and it is common to experience mini rallies throughout a downturn. To that end, the upcoming August reporting season will be important in providing us with real-time updates on how corporate Australia is faring.

During July, the Emerging Opportunities Fund was pleased to debut in the Mercer survey ranked as the #1 small cap fund in Australia over the 3 years to June 2022, having outperformed the Small Ordinaries Accumulation Index by 13.3%pa. Further, the fund is the only small cap fund to have ranked in the 1<sup>st</sup> quartile over FY20, FY21 and FY22 – a tricky period for investors, comprising one bull market and two bear markets.

Top Contributors (Absolute)	Sector
Austal Limited	Industrials
SG Fleet Group	Industrials
Pinnacle Investment	Financials
Top Detractors (Absolute)	Sector
Alliance Aviation Services	Industrials
EQT Holdings	Financials
nib Holdings	Financials
Platforms	
Netwealth, uXchange, Mason Stevens, Hub24, BT Panorama	

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