

Prime Value Emerging Opportunities Fund Update – August 2022

- Global markets started the month on a positive note but sentiment abated through the month on hawkish US Federal Reserve statements.
- The fund returned +2.2% in August, 1.6% above the Small Ordinaries Accumulation Index of +0.6%. Portfolio construction played an important role in the fund's solid performance in August and we outline our approach on page 2.
- In recent weeks the fund received recognition from 2 important external parties. Lonsec upgraded the fund to "Recommended" and Zenith nominated it as one of 3 finalists for the 2022 Small Cap Fund award. These reflect more than just strong investment returns – they also assess risk, organisation and investment team strength.

	Total Return*	Benchmark (8% pa)	Value Add
Since Inception (p.a.)	12.5%	8.0%	4.5%
5 Years (p.a.)	13.3%	8.0%	5.3%
3 Years (p.a.)	14.1%	8.0%	6.1%
2 Years (p.a.)	11.0%	8.0%	3.0%
1 Year	-10.1%	8.0%	-18.1%
3 Months	2.0%	2.0%	0.0%
1 Month	2.2%	0.6%	1.6%

* 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.

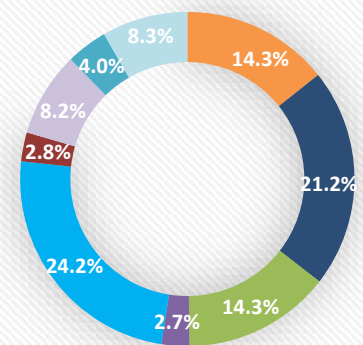
	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	FYTD	ITD
FY 2016				2.5%	6.3%	0.7%	(0.2%)	(3.9%)	2.4%	3.3%	2.4%	(0.2%)	13.8%	13.8%
FY 2017	7.4%	2.5%	1.6%	(0.3%)	(6.0%)	(2.0%)	1.1%	(1.6%)	1.8%	(1.8%)	(1.2%)	2.5%	3.4%	17.6%
FY 2018	1.3%	1.8%	2.3%	2.7%	1.5%	3.9%	(0.8%)	0.6%	(2.2%)	(0.5%)	3.9%	3.4%	19.0%	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%	2.2%											10.6%	126.2%

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

* The top five holdings make up approximately 21% 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
	Zenith – Recommended, Lonsec – Recommended

Holdings by Sectors



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

Market review

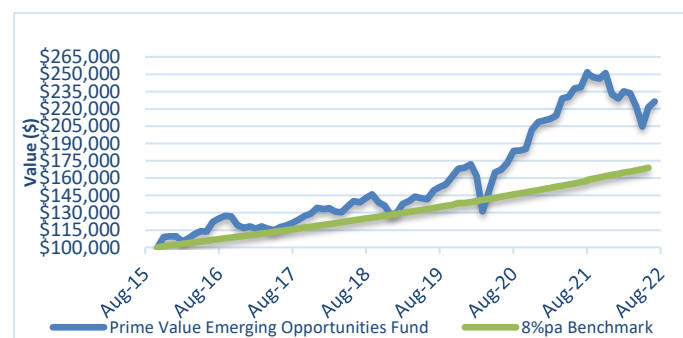
Global equities struggled in August following a positive July as hawkish commentary from the US Federal Reserve's annual Jackson Hole symposium softened investor sentiment. The MSCI Developed Markets Index fell (-3.4%) along with the S&P 500 Index (-4.1%). The FTSE 100 Index was softer, down 1.1% for the month but the Nikkei and Australian share markets posted positive returns in August.

The RBA's August meeting saw the central bank raise the cash rate by 50bps again, to 1.85%, as widely expected. This rate hike saw the Australian 10-year bond yields increased 54bps in August to 3.60%. US yields also increased materially, +52bps to 3.13%, following hawkish commentary from Federal Reserve Chair Jerome Powell at the Fed's annual symposium in Jackson Hole.

Brent Oil fell below US\$100/bbl at the end of August, following the de-escalation in Iraq. Gold has been facing pressure from a stronger US dollar, higher real rates and the market anticipating further policy tightening.

The ASX300 Accumulation Index rose 1.2% in August. Despite downbeat headlines and volatile markets, Australian companies reported strong profits in FY22. The median company beat consensus at the half-yearly NPAT line by +0.7%. Although the number companies giving forward earnings guidance had declined relative to previous years, the ratio was still reasonably high. Where earnings guidance was offered, it led to more downgrades than upgrades by analysts—although we observe such revisions tend to reference sell-side analysts 'catching up' to more realistic corporate conditions.

Mid-caps were favoured during the month, outperforming both large and small cap indices. On a sector basis, Energy (+7.8%) was the strongest performer while Materials (+4.4%) and Communication Services (+2.5%) also outperformed in Australia. The worst sectors were REITs (-3.5%), Consumer Staples (-1.8%) and IT (-1.6%).



This graph shows how \$100,000 invested at the Fund's Inception has increased to \$226,200 (net of fees). This compares with the return of the benchmark, where a \$100,000 investment would have increased to \$170,100 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	\$1.9273
Withdrawal price	\$1.9119
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

The fund's return was +2.2% in August, 1.6% above the Small Ordinaries Accumulation Index of +0.6%.

Key positive contributors for the month were **AUB Group** (AUB +14.7%), **NRW** (NRW +26.0%) and **NIB Holdings** (NHF +13.0%). Key detractors were **City Chic** (CCX -29.1%), **Hansen** (HSN -14.0%) and **Kelsian** (KLS -10.5%).

A key reason for the fund's solid performance in August was portfolio construction. We believe portfolio construction is an under-rated part of investment management that gets overlooked by the more exciting skill of stock-picking.

In August City Chic was our worst performer and fell 29%. However, its weighting in the portfolio was relatively small. The top 4 positive contributors in August all had a larger positive impact on the portfolio than City Chic had negative impact despite none of the positive stocks rising more than 29%. Our winners were larger weightings than our losers.

Central to Prime Value's investment approach is risk management, particularly downside protection. This means typically having the largest weightings in stocks with the lowest risk and the smallest weightings in those with the highest risk. This is particularly important in the current uncertain economic environment. Importantly we expect all investments in the fund to generate a strong return. We target a minimum of 10% p.a. for a stock to be included in the fund. So our large weightings are not just low risk and low returning – they must contribute solid returns. The key is that we have much higher certainty of these returns.

This risk focus is more than just words. It was built into the fund's structure from inception. The benchmark is an absolute return of +8% p.a. not an index like most other funds. Therefore, we are not tempted to look at stock weightings in the index and position the portfolio relative to them to manage performance risk. We are completely free to weight the portfolio for the risk / return characteristics of the stock. Surprisingly this structure is rare, but we believe the best approach for long term risk adjusted returns. 8% is the long term return of the index, providing a fair benchmark while encouraging the right focus (absolute returns).

The outcome of our approach has been good. Over the last 3 years the fund is the best performing small cap fund in Australia (Mercer). It also has one of the lowest measured risk (volatility) of its peers. It is the only small cap fund in Australia to be top quartile in all the last 3 financial year's (Mercer), a highly volatile period that included 2 bear markets and 1 bull market that tested fund managers.

Pleasingly this performance has been recognised by external parties. In the last 3 weeks Lonsec upgraded the fund to "Recommended" and Zenith nominated it as one of 3 finalists for the 2022 Small Cap Fund award.

More important is the returns generated for investors (which includes us). This year has been tough for markets but the fund has outperformed the index. And longer-term returns have been very strong at +14% p.a. (after fees), 10% p.a. above the Small Ordinaries Accumulation of +4% p.a.

Top Contributors (Absolute)	Sector
AUB Group Limited	Financials
NRW Holdings Limited	Industrials
nib Holdings	Financials
Top Detractors (Absolute)	Sector
City Chic Collective	Consumer Discretionary
Hansen Technologies	Information Technology
Kelsian Group	Industrials
Platforms	
Netwealth, uXchange, Mason Stevens, Hub24, BT Panorama	

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