Prime Value Growth Fund
Fund Update – May 2023

- US debt ceiling concerns played a key role in mixed market outcomes in May.
- The fund returned -0.2%, which was 2.3% ahead of the ASX300 Accumulation Index which fell -2.5%. Technology stocks performed best through May, while Resources and Retail stocks were weakest.
- We highlight within this note the importance of the entry price of an investment, which is one of the key determinants of the ultimate investment return achieved. While possibly surprising, the median ASX300 stock has traded in a range of >40% over the past year.

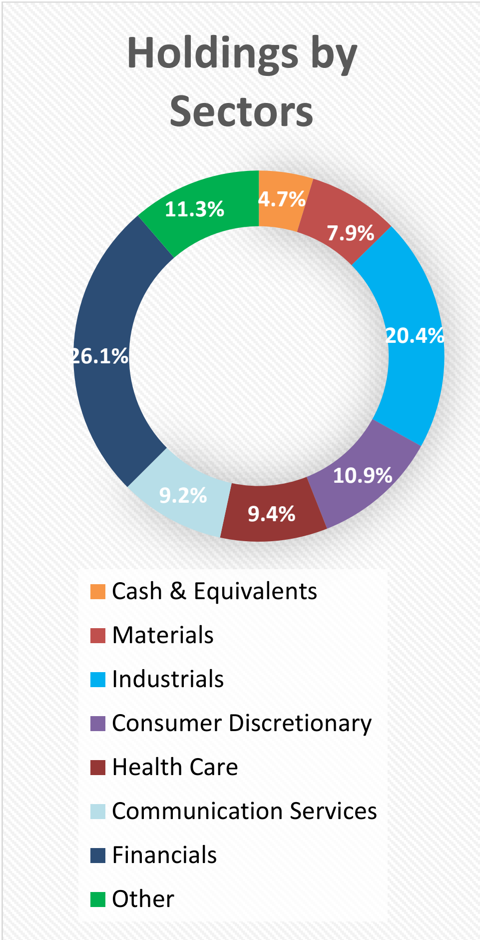
	Total Return*	S&P/ASX 300 Accumulation Index	Value Add
Since Inception (p.a.)	**10.2%**	8.1%	2.2%
20 Years (p.a.)	**9.0%**	8.9%	0.1%
10 Years (p.a.)	**5.1%**	8.1%	-3.0%
5 Years (p.a.)	**4.4%**	7.4%	-3.0%
3 Years (p.a.)	**11.1%**	11.3%	-0.2%
1 Year	**3.0%**	2.4%	0.7%
3 Months	**1.7%**	-1.0%	2.7%
1 Month	**-0.2%**	-2.5%	2.3%

*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) standards. 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.

Top five holdings	Sector
BHP Group	Materials
Commonwealth Bank	Financials
CSL Limited	Health Care
EQT Holdings	Financials
Kelsian Group	Industrials

The top five holdings make up approximately 29.2% of the portfolio.

Feature	Fund facts
Investment Objective	To provide superior medium to long term capital growth, with some income, by managing a portfolio of predominantly Australian equities listed on any recognised Australian Stock Exchange.
Benchmark	S&P/ ASX 300 Accumulation Index
Inception Date	10 April 1998
Cash	0 - 30%
Distributions	Half-yearly
Suggested Investment Period	3 + years

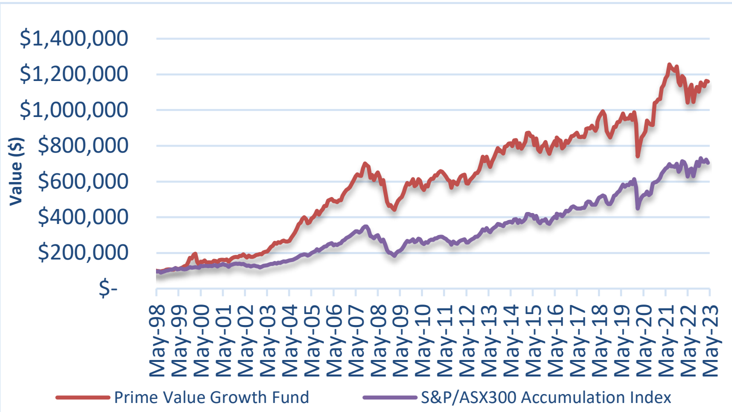


Market review

The MSCI Developed Markets Index fell (-0.1%) over May, while the S&P 500 Index posted a small gain (+0.4%) in a weak month for equities. Mostly, investors harboured concerns around US law makers intentions on extending the country's debt ceiling or risk a government debt default. Emerging markets outperformed developed markets, and were unchanged across the month. European share markets were mostly lower, with the FTSE100 Index and Euro Stoxx 50 Index both -4.9%. Japanese equities were strong with the Nikkei 225 Index gaining 7.0%.

Australian 10-year yields sold off by 26bps across May to 3.60%, after the RBA resumed rate hikes, raising the cash rate to 3.85% in the May-23 meeting, with 22 out of 31 polled economists expecting no change. US 10-year bonds also sold off, moving 19bps from 3.45% to 3.64%, with continued aggressive rate hikes from the US Federal Reserve. Brent Oil fell by US$6.00 to US$73.54/bbl over May. Concerns around Chinese oil demand are still putting pressure on oil prices.

The S&P/ASX300 Accumulation Index underperformed the Developed World Index, falling (-2.5%) in May, on continued rate hike expectations. At a sector level, four of the 11 sectors rose (Energy, Health Care, Technology and Utilities), with a further three (Communication Services, Industrials and Real Estate) outperforming the broader benchmark. The Technology sector was strongest (+11.6%) and was the largest contributor (+24bps) to overall market returns. On the other hand, the Materials and Financials sectors weighed heavily on market returns, detracting 197bps combined. We saw similar trends to those of April, with Mid-Caps outperforming Large-and Small-Caps in May. Industrials broadly outperformed Resources across size/macro indices, with the greatest returns spread observed within the Small Ordinaries, where Industrials closed +5.4% point above Resources.



This graph shows how $100,000 invested at the Fund's inception has increased to $1,160,500 (net of fees excluding performance fees). This compares very favourably with the return of the market, where a $100,000 investment would have increased to $705,400 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	PVA0001AU	PVA0011AU
Minimum Investment	$20,000	N/A
Issue price	$ 1.7680	$ 1.7695
Withdrawal price	$ 1.7546	$ 1.7561
Distribution (31/12/2022)	$ 0.0329	$ 0.0347
Indirect Cost Ratio (ICR)*	1.435% p.a.	1.23% p.a.
Performance fee**	20.5%	20.5%

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

Fund review and strategy

The fund returned -0.2% in May, which was 2.3% ahead of the ASX 300 Accumulation Index which returned -2.5%.

The month was characterised by strong returns from Technology and Lithium stocks, and weak performances from the broader Resources and Retail sectors.

Local Technology stocks appeared to rally following a material profit upgrade from US-listed Artificial Intelligence beneficiary, NVIDIA. Conversely, softer Chinese economic data saw Resource stocks sold off, while Retail stocks were hit by signs that consumer demand is softening.

Key fund contributors in May were **Kelsian** (KLS +11.5%), **Newscorp** (NWS +11.3%) and **Austal** (ASB +19.0%). Key detractors were **BHP Group** (BHP -5.4%), **AUB Group** (AUB -8.0%) and **Helloworld** (HLO -10.6%).

Kelsian (KLS) rose on limited new news, and has steadily become one of the fund's largest holdings. For us, it is a reminder of the importance of investing in quality businesses at the right price. For a long time, we have been attracted to Kelsian's resilient public bus business model, that sees it generate inflation-protected cash flows with no fare box risk from long-term contracts with government counterparties, and without material capital investment in key infrastructure in some regions. However, we were not alone in appreciating these qualities, with investors pushing the stock beyond our valuation tolerance levels to >$9ps for much of 2021 following a series of contract wins and renewals. But no-one has a perfect win rate, and shortly thereafter, the company's extraordinary winning streak came to an end as it missed out on several tender opportunities. This saw investors lose faith and push the stock down into our hitting zone, resulting in our initial purchase in Jan 2022 at c. $6.50ps. Further 'disappointments' from the failed attempt to acquire a large UK bus operator saw the stock fall lower, providing the opportunity to add 25% to the fund's holding below $6ps in Sept 2022, and a further 25% addition below $5ps in Oct 2022. Through this time that the stock halved in price, nothing had changed with regards to its business model or operating performance; investors had simply fallen out of love. And just as a perfect hit rate is unobtainable, a perfect loss rate is sustained by few, and Kelsian has since enjoyed more than its market share worth of new wins through the NSW Government's recent tender process, resulting in a ~50% share price rise since (to $6.80ps). Our most recent opportunity to add to the position came in Mar 2023, participating in an equity raise (at $5.55ps) as the company acquired a large US bus business with an experienced management team and impressive organic growth profile.

The key in this case study is the importance of the entry price of an investment; it is a key component of the returns ultimately generated. It will surprise many to learn that the share price of the median company in the ASX300 index is trading 17% below its 52-week high, while also trading 27% above its 52-week low – that is, the median ASX300 company has traded in a >40% share price range over the past year.

Top Contributors (Absolute)	Sector
Kelsian	Industrials
Newscorp	Communication Services
Austal	Industrials
Top Detractors (Absolute)	**Sector**
BHP	Materials
AUB Group	Financials
Helloworld	Consumer Discretionary

Platforms

Asgard, Ausmaq, Beacon, BT Wrap, First Wrap, Hub24, IOOF, Global One, Macquarie Wrap, Netwealth, Powerwrap, Symetry, Wealthtrac

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