Prime Value Diversified High Income Monthly Fund Update – June 2023

By Matthew Lemke, Fund Manager

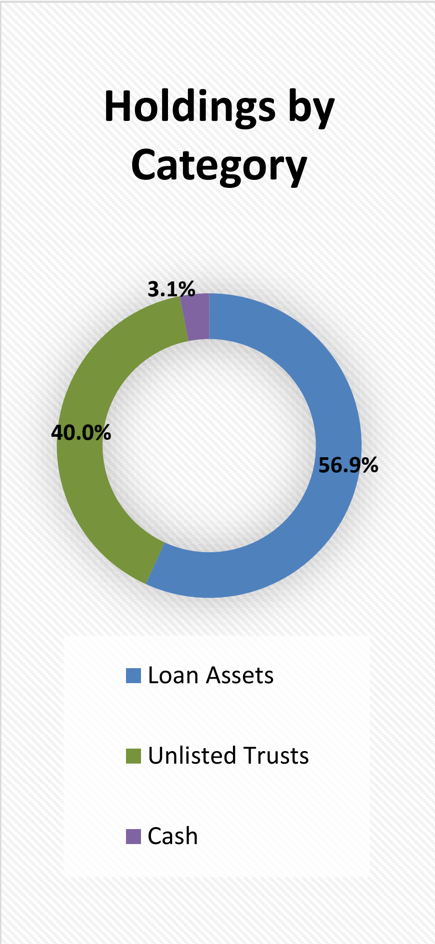
- The Fund performed well in June with a return of 0.61% after-fees, helped by positive asset revaluations. The return for the Financial Year just ended was 6.19% after fees and for the past 2 years was 6.63% p.a. after-fees.
- The Fund will shortly pay a distribution of $0.53 cents per unit for the month of June, being the second month in a row of the higher distribution. This distribution is equivalent to an annual distribution rate of 6.55% (assuming all distributions are reinvested).
- The main market variable during the Financial Year just ended was the extent of RBA rate hikes. We are pleased we could increase the distribution rate through the Financial Year. We believe the RBA is close to the end of its rate hikes. However, we continue to be very alert to market and economic developments and to manage the Fund conservatively to provide capital stability and ongoing distributions.

	Net Return*	Benchmark (RBA Cash Rate +4% p.a.)
Since inception (p.a.)	**5.90%**	4.95%
3 years (p.a.)	**6.47%**	5.05%
2 Years (p.a.)	**6.63%**	5.51%
1 Year	**6.19%**	6.87%
6 Months	**3.63%**	3.71%
3 Months	**1.57%**	1.90%
1 Month	**0.61%**	0.64%

* 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 a reliable indicator of future performance. Net returns are calculated after management fees.

Feature	Fund Facts
Portfolio Manager	Matthew Lemke
Investment Objective	The Fund aims to provide regular income with medium risk exposure. The Fund targets a return to investors of the RBA Cash Rate plus a margin of 4.0% p.a. This return may vary from month to month depending on the market.
Target Market	The Fund is designed for investors seeking a return above the RBA cash rate and regular distributions from a diverse portfolio of investments with an emphasis on capital preservation.
Benchmark	RBA Cash Rate + 4%
Inception Date	1 August 2019
Distributions	Monthly
Suggested Investment Period	1-2 years
Individual Security Maximum Exposure	Individual security holdings will generally be limited to 15% of the portfolio, however, the Fund Manager is permitted to invest above 15% but not exceeding 25% of the portfolio if this is considered to be in the best interests of investors.
Minimum Investment	$50,000
Management Fee	0.85% p.a. [1]
Performance Fee	15%[1] of net performance above the RBA Cash Rate + 4% p.a
Issue price	$1.0218
Withdrawal Price	$1.0218
Distribution (30/06/23)	$0.0053

[1]The Fund may hold one or more unlisted trusts (Interposed Vehicles). Indirect costs are the impact on the Fund from fees and costs such as management fees in connection with Interposed Vehicles. The fees in the above table exclude indirect costs. Indirect management fees and costs for the year ended 30 June 2022 were 0.77%. Indirect performance fees charged or accrued since the Fund's inception to 30 June 2022 were 0.29% pa. Indirect costs will vary every year. The indirect costs as at 30 June 2023 will be updated when the information is to hand.



Fund review and strategy

The Fund performed well in June with a return of 0.61% after-fees, helped by positive asset revaluations. The return for the Financial Year just ended was 6.19% after fees and for the past 2 years was 6.63% p.a. after-fees. We hope to deliver more positive asset revaluations in the future. Of course, past performance is not a reliable indicator of future performance.

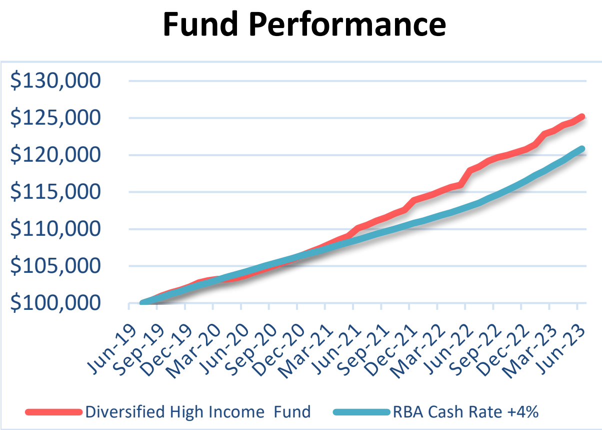
The Fund will shortly pay a distribution of $0.53 cents per unit for the month of June, being the second month in a row of the higher distribution. This distribution is equivalent to an annual distribution rate of 6.55% (assuming all distributions are reinvested). We are pleased that we have been able to increase the Fund's distribution rate to investors over the Financial Year as the RBA hiked rates and despite at times the quite pronounced market volatility.

The Fund has a wide diversity of assets in its portfolio which are influenced by different markets. The RBA's interest rate policy affects all assets in the portfolio in varying degrees. Our concern would be if the RBA kept hiking rates to the point where the economy began to falter. We are not at that point and the Australian economy continues to perform reasonably well. The Fund has been benefitting from the higher interest rates as assets in the portfolio progressively re-price, with a lag. Whether the RBA will deliver more rate hikes is the burning question for markets. Historical context is important. In the 1970s and early 1980s, high inflation globally led to a major tightening cycle, and then, for some countries like Australia, a bad recession which was blamed on the severe rate hikes. Another recession followed in the early 1990s, again blamed on rate hikes. Central banks such as the US Fed and the Bank of England then adopted inflation targets in the 1990s, with 2% being chosen as the target. A 2-3% band was adopted by Australia. The idea of a target inflation rate is to ensure that central banks like the RBA act early and not let inflation run away as high inflation can cause many problems within society and can potentially force rates much higher, potentially leading to a recession. With the onset of COVID in early 2020, the RBA like many central banks cuts rates to all-time lows to avert a recession and bolster employment. Inflation began to pick up quite strongly, and when inflation exceeded the 2-3% band, the RBA began hiking rates. The US Fed has hiked rates 5% since March 2022.

In hiking rates, the RBA is trying to bring inflation back to the 2-3% medium-term policy band. The question of more rate hikes therefore depends on actual inflation and the RBA's forecast for inflation. There are signs inflation is abating – the May inflation rate released late-June came in at 5.6% (annual) down from 6.8% in April. The official RBA forecast for inflation is for it to fall to 3% by mid-2025, which importantly, falls within the RBA's 2-3% medium-term policy band. The RBA may therefore be close to the end of its rate hikes, supported by the decision not to hike rates on 4 July. However, on July 12 the June quarter CPI is released - if higher than expected, the RBA could hike rates in August. Beyond that, we may need to wait for the new Governor (the Federal Treasurer is unlikely to extend Philip Lowe's tenure) and the new rate-setting committee, both commencing mid-September. With the Federal Government having control over the new Governor's appointment and selection of people on the rate-setting committee, there is a view that the RBA will be less inclined to hike rates. Interest rate policy will nonetheless continue to be a vexed issue for economists, and 'headline' news in the media over coming weeks.

As we enter the new Financial Year, we believe central banks and the RBA are moving closer to the end of their tightening cycles, and this will support a number of markets globally and in Australia, and particularly the property and equity markets. We are, however, staying very alert to market developments. Our aim is to continue to manage the Fund so as to provide capital stability and ongoing distributions every month to investors.

If you have any comments or questions at all, please do not hesitate to contact us to arrange a call with Matthew Lemke, the Fund Manager or the CEO of Prime Value, Yak Yong Quek.



This graph shows how $100,000 invested at the Fund's inception has increased to $125,190 (net of fees). This compares with the return of the RBA cash rate +4% p.a., where a $100,000 investment would have increased to $120,850 over the same period.

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