Prime Value Diversified High Income Monthly Fund Update – July 2023

By Matthew Lemke, Fund Manager

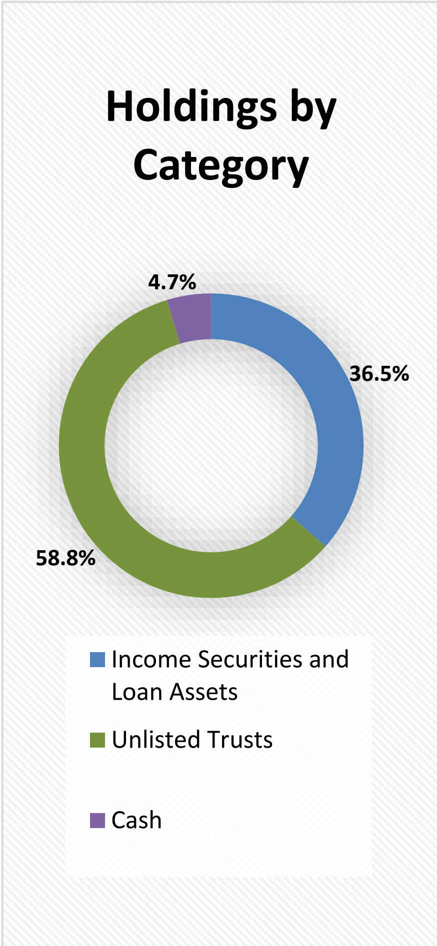
- The Fund performed well in July with a return of 0.42% after-fees. The return for the past 12 months was 6.14% after fees, 6.64% p.a. after-fees for the past 2 years, and 6.44% p.a. after-fees for the past 3 years.
- The Fund will shortly pay a distribution of $0.53 cents per unit for the month of July. This distribution is equivalent to an annual distribution rate of 6.55% (assuming all distributions are reinvested).
- Markets, including the property, credit and equity markets, are being supported by the general market consensus that the RBA, and most central banks in western developed countries, are now close to the end of their tightening cycles. There is a good case that the RBA's pause of the last 2 months will continue for some time. However, we continue to be very alert to market and economic developments and manage the Fund conservatively to provide capital stability and monthly distributions.

	Net Return*	Benchmark (RBA Cash Rate +4% p.a.)
Since inception (p.a.)	**5.89%**	5.02%
3 years (p.a.)	**6.44%**	5.16%
2 Years (p.a.)	**6.64%**	5.68%
1 Year	**6.14%**	7.14%
6 Months	**3.54%**	3.76%
3 Months	**1.36%**	2.00%
1 Month	**0.42%**	0.66%

* 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 generally 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	$1.0208
Withdrawal Price	$1.0208
Distribution (31/07/23)	$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 July with a return of 0.42% after-fees. The return for the past 12 months was 6.14% after fees, 6.64% p.a. after-fees for the past 2 years, and 6.44% p.a. after-fees for the past 3 years. 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 July, the third month in a row of the higher distribution. This distribution is equivalent to 6.55% per annum (assuming all distributions are reinvested).

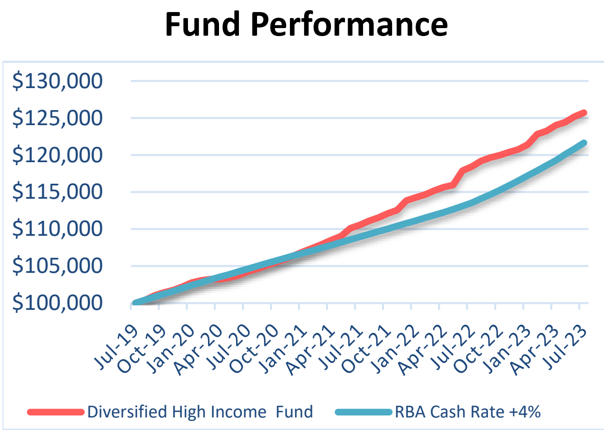
We strive for a wide diversity of assets in the Fund's portfolio to achieve capital stability and sustainable returns to investors. The assets are influenced by events occurring in a range of different markets. Inflation and interest rates remain the key variables for the Fund's performance given their widespread influence. In general, the Fund benefits from rising interest rates but there is a lag as many of the assets in the portfolio are repriced over time. The market believes the RBA and many other central banks are moving closer to the end of their tightening cycles. This is supporting markets globally and in Australia, including the property, credit and equity markets.

The key risk is that the RBA hikes to the point where the economy begins to falter. We estimate the cash rate would need to rise from the current 4.1% to at least 5% for this to occur. This is unlikely for the reasons below, and in fact we believe the RBA's pause of the last 2 months will continue for some time:

- The sheer number of rate hikes so far (12 hikes totalling 4% since May 2022) and the RBA's recent comments that the hikes to date are establishing "a more sustainable balance between supply and demand", and that their revised forecasts for unemployment (rising from 3.5% to 4.5% in 2024), GDP growth (below-trend at 1.75% - 2% over 2024-25) and inflation (3.25% by late-2024, only marginally higher than the RBA's medium-term 2-3% policy target) now justify not hiking further;
- The downtrend in inflation as seen in the June quarter CPI data which showed inflation in the past year down to 6% from 7% in March. The June quarter CPI only rose 0.8%. This data allowed the RBA to bring forward the timing of its forecast for inflation to fall into the 2-3% policy band;
- The "institutional" framework for inflation and interest rates is changing, and the timing of the various appointments suggests no rate hikes will occur in the immediate future. In July, the Federal Treasurer appointed the new RBA Governor to commence mid-September. The scope and wording of the RBA's monetary policy objectives, and the operation of the new 'rate-setting committee' are still being worked out. In July the Federal Government also announced the new Chair of the Productivity Commission and an overhaul of the Commission to create greater productivity gains and thereby reduce inflation in the economy; and
- Our major trading partners appear to be on a lower growth trajectory, weighed down by inflation and rate hikes. Economists now forecast even bigger slowdowns in the US and the Eurozone after the US Fed and ECB both hiked rates again in late-July. China is also experiencing an economic slowdown and in late-July the People's Bank of China cut interest rates.

In managing the Fund, we adopt a "risk-management" approach whilst still "opportunistically" buying assets that fit within the Fund's objectives. Both interest rates and inflation affect cost of living, however, interest rates are the only "mainstream" policy tool to control inflation. Hence, although the RBA has paused, it may resume hikes if the downward trend in inflation does not continue. Having such a low 2-3% policy target for inflation was specifically to ensure the RBA kept its focus on inflation and hiked rates early to contain it. With all these factors in mind, we are managing the portfolio conservatively and staying very alert to economic and market developments. Our aim is to continue to provide capital stability and monthly distributions to investors.

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



This graph shows how $100,000 invested at the Fund's inception has increased to $125,720 (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 $121,650 over the same period.

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