Prime Value Diversified High Income Fund Monthly Update – August 2023

By Matthew Lemke, Fund Manager

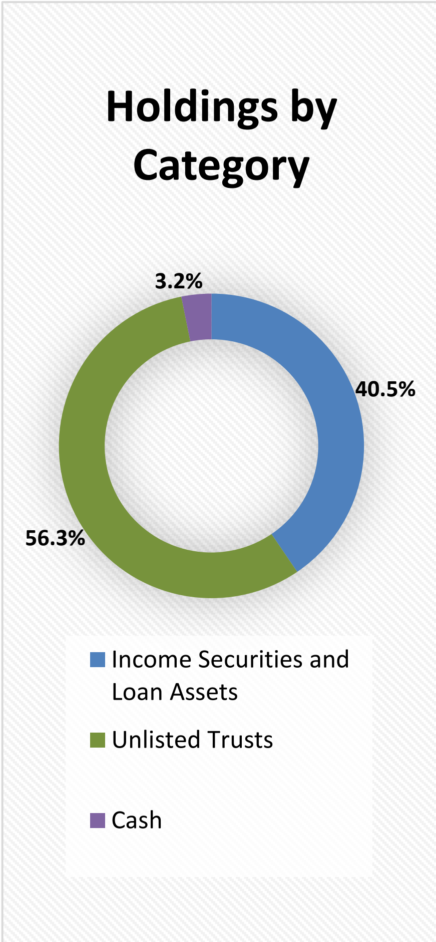
- The Fund performed well in August with a 0.45% return after-fees. The return for the last 2 years was 6.61% p.a. after-fees, and 6.48% p.a. after-fees for the last 3 years, both returns being above the Benchmark returns for the Fund.
- The Fund will shortly pay a distribution of $0.53 cents per unit for the month of August. This distribution is the 4th distribution in a row at the higher distribution rate, which is equivalent to annual rate of 6.55% (assuming all distributions are reinvested).
- With the continuing downtrend in inflation, the market has gone through a sea-change in recent weeks and now believes the RBA rate tightening cycle is over. This is supporting many of the asset markets in Australia. We expect the Fund to continue to perform well over the remainder of 2023 and meet its key objectives of preserving investor capital and ongoing monthly distributions.

	Net Return*	Benchmark Return (RBA Cash Rate +4% p.a.)
Since inception (p.a.)	**5.88%**	5.09%
3 years (p.a.)	**6.48%**	5.27%
2 Years (p.a.)	**6.61%**	5.84%
1 Year	**5.93%**	7.31%
6 Months	**2.82%**	3.89%
3 Months	**1.49%**	1.98%
1 Month	**0.45%**	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
Responsible Entity	Prime Value Asset Management Ltd (ABN 23 080 376 110; AFSL 222 055)
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% per annum[1]
Performance Fee	15%[1] of net performance above the RBA Cash Rate + 4% p.a
Issue price	$1.0201
Withdrawal Price	$1.0201
Distribution (31/08/23)	$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 August with a 0.45% return after-fees. The return for the last 2 years was 6.61% p.a. after-fees, and 6.48% p.a. after-fees for the last 3 years, both returns being above the Benchmark returns for the Fund. Of course, past performance is not a reliable indicator of future performance.

The Diversified High Income Fund distributed $0.53 cents/unit to investors for August, the 4th distribution in a row at the higher distribution rate, and equivalent to an annual rate of 6.55% (assuming distributions are reinvested).

The Fund has a diverse range of income-producing assets, including mortgages, unlisted property, 'alternative' assets, income securities and loan assets. The major risk affecting the Fund's performance would be a material deterioration in the Australian economy. There are two factors that may cause this to occur, both of which are not expected.

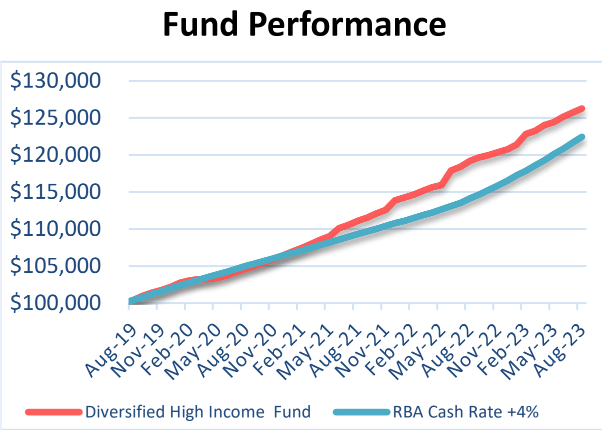
The first factor relates to inflation and the risk the RBA hikes too far. Due to the diversity of its portfolio, the Fund performs well whether interest rates are rising or falling. We have deliberately constructed the portfolio so that the Fund is not "positioned" or biased to a particular interest rate outcome. However, if the RBA hikes the cash rate from the current 4.1% to at least 5%, then this may potentially impact the Fund's portfolio. The market, the RBA and many respected economists are not forecasting this to happen. Indeed, in the last month or so, the market has gone through a sea-change and is now pricing in the end of the tightening cycle with the RBA cash rate to remain at 4.1%. Not having hiked on 5 September, the RBA has now paused for 3 months, supporting the market's view that the "pause" is not a one-off but rather that the tightening cycle is actually over. As expected, the RBA has left the door open to further rate hikes should inflation not continue its downward trend, and there are some potential new sources of inflationary pressure from the recent fall in the A$ to US$0.6460 raising imported goods prices and the rise in crude oil prices to around US$89/barrel raising petrol and fuel prices.

The major reason supporting the market view that the tightening cycle is over is the clear downward trend in the inflation data as seen in the move lower in the June quarter CPI to 6% (annual) from 7% in the March quarter. In addition, the monthly CPI for July released late-August fell to 4.9% (annual) from 5.4% in June. Importantly, this data has enabled the RBA to bring forward its forecast for underlying inflation to move to within its 2-3% target band to the end of 2024 rather than mid to late-2025 which was its previous forecast. The RBA Governor in his statements on 11 August to the House of Representatives Standing Committee for Economics and the RBA's Monetary Policy Statement issued in August both reiterated that the 4% of rate hikes delivered since May 2022 are enough to bring underlying inflation down to its 2-3% target policy band. At the very least, the RBA is now on hold for the next few months, with the new RBA Governor to commence mid-September, and the rate-setting committee to operate alongside the RBA in setting monetary policy to commence later this year. There are also changes being considered in Parliament concerning changes to the RBA's monetary policy objectives.

The second factor is the growth slowdown in our major trading partners worsens, with flow-on effects to Australia and asset markets here. The market, the RBA and many respected economists are not forecasting this to occur. In China, the People's Bank of China is lowering interest rates and other stimulatory measures are being introduced to arrest the economic slowdown.

The Fund's portfolio is diverse comprising quality assets that are resilient to the Australian economy weakening should that occur, or renewed market volatility. Our emphasis is to ensure the objectives of preserving investor capital and sustainable monthly distributions are met. We expect the Fund to continue to perform well over the remainder of 2023.

If you have any questions, 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 $126,280 (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 $122,460 over the same period.

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.

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