# Prime Value Enhanced Income Fund Monthly Update – August 2023

## By Matthew Lemke, Fund Manager

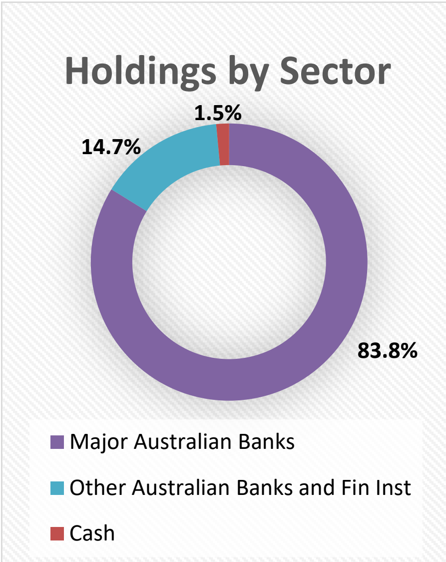
- The Fund performed well in August with a 0.37% return after-fees, which is above its Benchmark return. For the past 12 months, the return was 3.22% after-fees excluding franking credits and 3.39% after-fees including franking credits.
- With the continuing downtrend in inflation, the market has gone through a sea-change in recent weeks and now believes the RBA rate tightening cycle is over. This is supporting the credit and debt securities market, and other asset markets. We expect the Fund to continue to perform well and meet its key objectives of preserving investor capital and ongoing quarterly distributions.

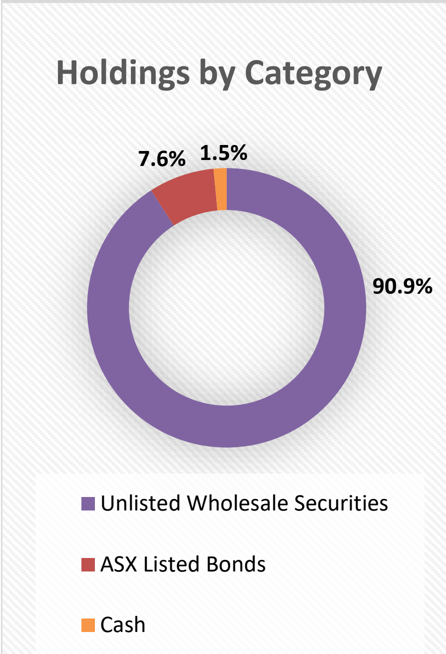
| | Net Return* | Net Return including Franking Credits** | Benchmark Return - 90 Day Bank Bill Rate (BBSW) |
|---|---|---|---|
| Since inception (p.a.) | **2.47%** | **2.89%** | 1.65% |
| 7 years (p.a.) | **2.23%** | **2.68%** | 1.44% |
| 5 Years (p.a.) | **1.61%** | **1.89%** | 1.29% |
| 3 Years (p.a.) | **1.61%** | **1.75%** | 1.40% |
| 1 year | **3.22%** | **3.39%** | 3.56% |
| 6 Months | **1.29%** | **1.46%** | 1.99% |
| 3 Months | **1.06%** | **1.23%** | 1.07% |
| 1 Month | **0.37%** | **0.37%** | 0.34% |

| Major Holdings | Sector | Category |
|---|---|---|
| NAB | Banks | Wholesale Notes |
| Westpac | Banks | Wholesale Notes |
| CBA | Banks | Wholesale Notes |
| ANZ | Banks | Wholesale Notes |
| Bank of Queensland | Banks | Wholesale Notes |

| Feature | Fund Facts |
|---|---|
| Portfolio Manager | Matthew Lemke |
| Responsible Entity | Prime Value Asset Management Ltd (ABN 23 080 376 110; AFSL 222 055) |
| Investment Objective | To provide regular income with low risk of capital loss in the medium term (the Fund's unit price will vary with market factors and other factors affecting the prices of securities in the investment portfolio). The Fund targets a return to investors of a reasonable margin over the 90 day BBSW rate. The return will vary over time depending on the market and economic outlook. |
| Target Market | The Fund is for investors seeking a regular return above the 90 day BBSW rate from a diverse portfolio of investments with an emphasis on capital preservation. |
| Benchmark | 90 day BBSW rate (this benchmark rate was previously the Reserve Bank of Australia's cash rate. The benchmark rate was changed in December 2020 to better reflect the Fund's objectives). |
| Inception Date | 3 June 2014 |
| Interest Rate Reset Duration | Approx. 0.3 years |
| Distributions | Quarterly |
| Suggested Investment Period | 1 + year |
| Minimum Investment | $50,000 |
| Indirect Cost Ratio (ICR) | 0.60% p.a.[1] |
| Issue price | $0.9973 |
| Withdrawal Price | $0.9969 |
| Distribution (30/06/23) | $0.0025 |

[1]Unless otherwise stated, all fees quoted are inclusive of GST and less the relevant RITC



### Fund review and strategy

The Fund performed well in August with a 0.37% return after-fees, which is above its Benchmark return. For the past 12 months, the return was 3.22% after-fees excluding franking credits and 3.39% after-fees including franking credits. Of course, past performance is not a reliable indicator of future performance.

Credit spreads on the debt securities in the Fund's portfolio are the key variable in the Fund's performance. There are two factors that may cause credit risk to rise and flow through to higher credit spreads, both of which are not expected.

The first factor relates to inflation and interest rates and specifically the risk that the RBA hikes further to the point where the economy begins to encounter a significant slowdown leading to a rise in general credit risk. We estimate that the RBA would need to take the cash rate from the current 4.1% to at least 5% for this to occur. In the last month or so, the market has gone through a clear sea-change and is now pricing in the RBA cash rate to remain at 4.1% for the time being. 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 that the tightening cycle is over. As expected, the RBA has left the door open to further rate hikes should inflation not continue its downward trend. We also note the potential new sources of inflationary pressure from the recent weakening of the A$ to US$0.6460 raising imported goods prices and the move higher in crude oil prices to around US$89/barrel raising petrol and fuel prices.

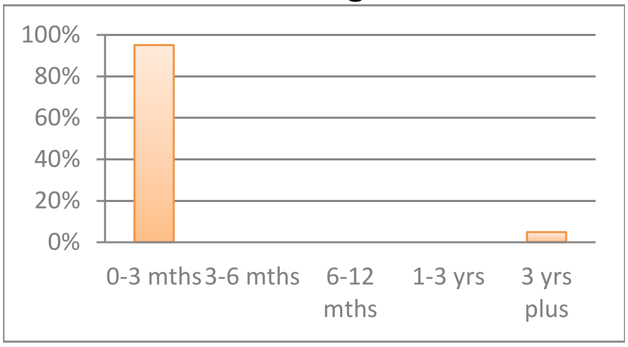
The major reason for the market view that the tightening cycle is over is that the trend in the inflation data is clearly down as seen in the move lower in the June quarter CPI to 6% (annual) from 7% in the March quarter. In addition, the monthly CPI for July released late-August fell to 4.9% (annual) from 5.4% in June. 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 several changes being considered in Parliament concerning possible changes to the RBA's monetary policy objectives.

The second factor is that the growth slowdown in our major trading partners, and particularly China, becomes more severe with flow-on effects to the Australian economy. The market, the RBA and respected economists are not forecasting for this to occur. In China, the People's Bank of China is lowering interest rates and other stimulatory measures are being introduced in China to ensure the growth slowdown does not become more severe.

We are managing the Fund's portfolio so that it is resilient to a broad range of potential scenarios for inflation, interest rates and the Australian economy. In the last two months, we have moved the weighting of "AAA" and "AA-" rated securities in the portfolio from 64% to 90% and increased the weighting of senior unsecured securities of the four major Australian banks from 58% to 84%. The credit risk of the Fund is therefore very low. The portfolio is also highly liquid which enhances management of the Fund. The portfolio weighting of "floating rate" securities (rate resets every 3 months) is now at 93%, which means the Fund directly benefits from the higher interest rates. The Fund is very resilient to market and economic outcomes. Our emphasis in managing the Fund is to ensure the key objectives of preserving investor capital and sustainable quarterly distributions are met. We expect the Fund to continue to perform well over the remainder of 2023.

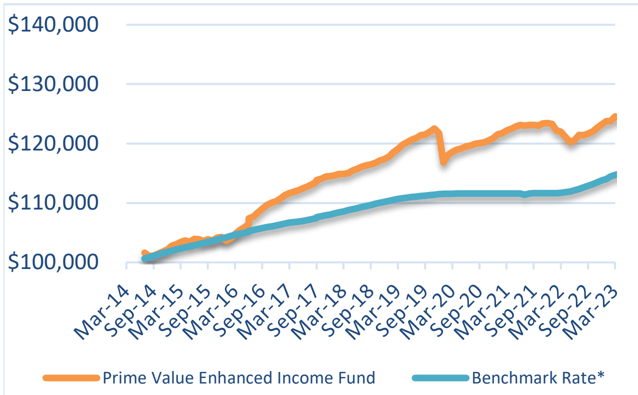
We welcome any comments or questions you may have and would be very pleased to organise a call with the Fund Manager, Matthew Lemke, or the CEO of Prime Value, Yak Yong Quek.

## Interest Rate Reset Management




The Fund's portfolio weighted average interest rate reset duration is approximately 0.3 years. The vast majority of securities in the Fund's portfolio have interest rates that reset every quarter, and therefore benefit from the higher interest rates in the market.

## Fund Performance




This graph shows how $100,000 invested at the Fund's inception has increased to $125,350 (net of fees). This compares with the return of the benchmark rate, where a $100,000 investment would have increased to $116,350 over the same period.

*The Benchmark Return was calculated by reference to the RBA Official Cash Rate until December 2020 and thereafter by reference to the 90 day BBSW rate

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.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