Prime Value Emerging Opportunities Fund Update – November 2023

PrimeValue® Building Wealth Together

- Equity markets rallied globally on lower inflation expectations with growing optimism that central banks may have seen peak interest rates.
- The fund's return was +5.7% for November, which was 1.3% below the Small Ordinaries Accumulation Index (+7.0%) and 2.9% below the Small Industrials Accumulation Index (+8.6%). In risk-on environments, speculative stocks tend to outperform and so it is not unusual for the fund to lag the index in such periods.
- We tend to be long-term investors, and highlight that over the past 5 years, 57% of the fund has been owned for >3 years. One such stock we feature is News Corporation.

	Total Return*	Benchmark (8% pa)	Value Add
Since Inception (p.a.)	10.8%	8.0%	2.8%
7 Years (p.a.)	9.9%	8.0%	1.9%
5 Years (p.a.)	11.1%	8.0%	3.1%
3 Years (p.a.)	4.5%	8.0%	-3.5%
1 Year	6.8%	8.0%	-1.2%
3 Months	-2.4%	2.0%	-4.4%
1 Month	5.7%	0.7%	5.0%

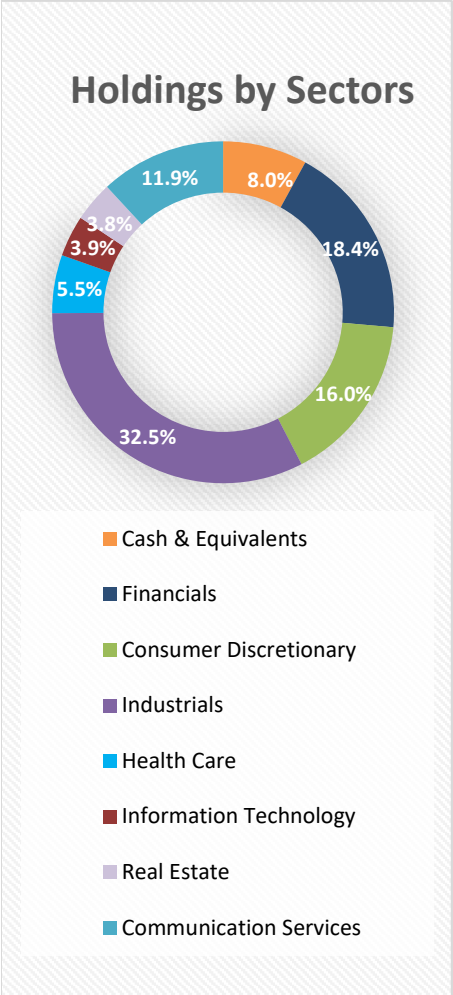
* Fund returns are calculated net of management fees and performance fees assuming all distributions are re-invested. Performance figures are calculated in accordance with the Financial Services Council (FSC) standards. Returns exclude the benefits of imputation credits. Past performance is not necessarily an indicator of future performance.

	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	FYTD	ITD
FY 2016				2.5%	6.3%	0.7%	(0.2%)	(3.9%)	2.4%	3.3%	2.4%	(0.2%)	**13.8%**	**13.8%**
FY 2017	7.4%	2.5%	1.6%	(0.3%)	(6.0%)	(2.0%)	1.1%	(1.6%)	1.8%	(1.8%)	(1.2%)	2.5%	**3.4%**	**17.6%**
FY 2018	1.3%	1.8%	2.3%	2.7%	1.5%	3.9%	(0.8%)	0.6%	(2.2%)	(0.5%)	3.9%	3.4%	**19.0%**	**40.0%**
FY 2019	(0.8%)	2.9%	2.1%	(4.8%)	(2.0%)	(5.8%)	1.5%	5.8%	1.9%	2.7%	(1.0%)	(0.6%)	**1.2%**	**41.7%**
FY 2020	5.3%	2.0%	1.5%	4.5%	4.2%	0.5%	1.9%	(5.8%)	(19.1%)	12.7%	11.6%	1.4%	**18.1%**	**67.3%**
FY 2021	3.6%	6.0%	0.2%	0.7%	9.0%	3.2%	0.7%	0.6%	1.4%	7.0%	0.6%	3.1%	**42.0%**	**137.6%**
FY 2022	0.6%	5.3%	(0.3%)	(1.4%)	(0.4%)	1.8%	(7.3%)	(1.5%)	2.6%	(0.7%)	(5.0%)	(7.8)%	**(13.9%)**	**104.6%**
FY 2023	8.1%	2.2%	(8.9%)	4.7%	0.2%	(1.7%)	3.2%	0.2%	(0.8%)	3.4%	0.4%	2.9%	**13.7%**	**132.6%**
FY 2024	2.9%	(1.2%)	(1.6%)	(6.2%)	5.7%								**(0.8)%**	**130.6%**

Top five holdings (alphabetical order)	Sector
AUB Group	Financials
EQT Holdings	Financials
Kelsian Group	Industrials
News Corporation	Communication Services
Seven Group Holdings	Industrials

* The top five holdings make up approximately 25.3% of the portfolio

Feature	Fund facts
Portfolio Manager	Richard Ivers & Mike Younger
Investment objective	Achieve superior total returns by providing medium to long term capital growth by investing in smaller capitalisation companies.
Benchmark	8% p.a.
Inception date	8 October 2015
Typical number of stocks	25-50
Cash	0 - 100%
Unlisted Exposure	0 – 20%
International Exposure	0 – 20%
Distributions	Half-yearly
Suggested Investment Period	3 + years
Research Ratings	Zenith – Recommended Lonsec – Recommended



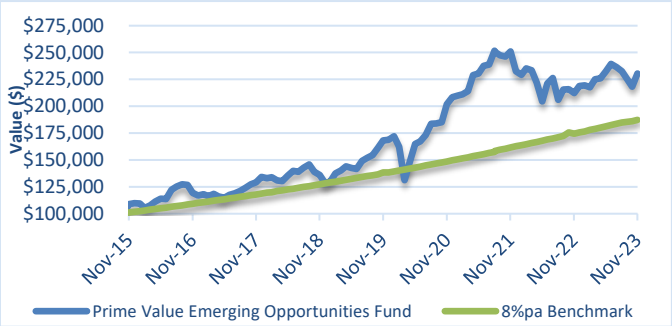
Market review

Global equity markets rallied in November, led by the U.S. (in local currency terms), with Australia participating well in the bounce. Lower inflation expectations with growing optimism that central banks may have seen peak interest rates. All three major U.S. stock indices ended November at least 8% higher, recovering from a three-month losing streak. The tech-heavy Nasdaq Composite Index led the way, ending the month up 10.7%. The S&P 500 Index gained 8.9% in November.

After peaking around 5% in mid-October, the US 10-year bond yield declined 54 bps in November. The rapid decline appears to be driven by softer economic data, renewed signs of slowing inflation, and some signs the US Federal Reserve may not just be on pause, but may cut interest rates in 2024. Australia's bond yields fell 52bps in November, similar to the drop in the US as the hawkish shift in rate expectations over recent months was partly reversed. Unlike developed world peers that are on hold, the RBA raised interest rates again in November.

Commodity prices were mixed in November. The iron ore price rose 7.2% in November to US$132.05/t, driven by rumours of property stimulus in China and a restocking of iron ore. In contrast to other base metals, copper rose 4.5% to US$3.80/lb amid protests in Panama. The decrease in yields and a lower US Dollar saw gold rise 2.6% to US$2,036/oz; the first-time gold has ended a month above US$2,000/oz.

The ASX300 Accumulation Index gained 5.1% in November. The breadth of sector and stock outperformance was broad-based, with sectors that had lagged in 2023 posting the largest uplift in returns. Health Care and Real Estate were the best-performing sectors for the month, up +11.7% and 10.8%, respectively; on the other hand, further oil price retracement saw the Energy sector underperform. Materials added the most value to the ASX300 Index, adding +147bps, followed by Real Estate (+118bps), Health Care (+114bps) and Discretionary (+105bps). Small Caps also rebounded strongly in November, up +7.0%, outperforming Large and- Mid Caps stocks.



This graph shows how $100,000 invested at the Fund's Inception has increased to $230,600 (net of fees). This compares with the return of the benchmark, where a $100,000 investment would have increased to $187,300 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
APIR Code	PVA0013AU
Minimum Investment	$20,000
Issue price	$1.9014
Withdrawal price	$1.8862
Distribution (30/06/2023)	$0.0258
Indirect Cost Ratio (ICR)	1.25%*
Performance fee	20%**p.a.

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

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Fund review & strategy

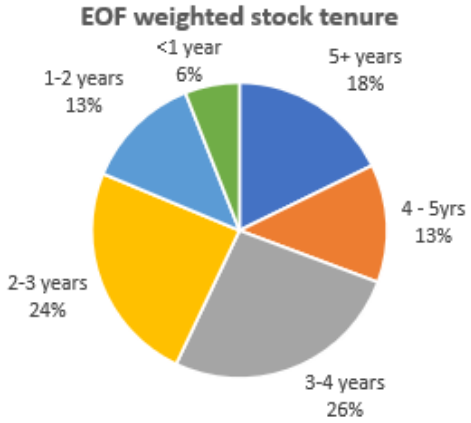
The fund returned +5.7% in November, which was 1.3% below the Small Ordinaries Accumulation Index return of +7.0%, and 2.9% below the Small Industrials Accumulation Index return of +8.6%.

In a risk-on environment, it is common for speculative companies to outperform, and so not unusual for the fund to lag the index when these stocks are running hot. Of the top 10 Small Ordinaries Index performers for the month, 5 are loss-making and 1 trades on >100x P/E. Interestingly, the fund did not own any of the bottom 30 performing stocks in the Index.

Key fund contributors were **Seven Group** (SVW +15.9%), **Collins Foods** (CKF +24.1%) and **Kelsian** (KLS +10.1%). Key detractors were **SG Fleet** (SGF -9.9%), **Alliance Aviation** (AQZ -3.7%) and **Qualitas** (QAL -6.5%).

SG Fleet (SGF) was the fund's worst performing stock in November, due largely to a non-fundamental factor – the partial sell-down of stock by LeasePlan, which acquired its stake as part of the consideration received from selling its Australian operations to SGF in 2021.

We typically aim to be long-term shareholders of the companies we invest in. The below pie chart shows the fund's individual stock ownership tenure by portfolio weight over the past 5 years, highlighting that 57% of the fund by weight has been owned for at least 3 years.



One such company is **News Corporation** (NWS) which the fund has owned for >4 years. The business has changed markedly over time, with the traditional 'old media' assets now making up <10% of profit, and the primary profit generators being two extremely high quality businesses – Realestate.com.au (REA) in which NWS owns 61%, and Dow Jones.

Despite having been a good performer over the past year (total return 27%), we continue to see strong valuation upside, with NWS trading at a ~30% discount to its blended peer group. However, while REA accounts for ~26% of NWS' EBITDA, it represents ~66% of its Market Capitalisation. As such, if we exclude REA, the rest of the group (ie ~74% of EBITDA) is trading at a ~60% discount to its blended peers, which we expect to progressively narrow over time.

Top Contributors (Absolute)	Sector
Seven Group	Industrials
Collins Foods	Consumer Discretionary
Kelsian	Industrials
Top Detractors (Absolute)	**Sector**
SG Fleet	Industrials
Alliance Aviation	Industrials
Qualitas	Real Estate
Platforms	
Netwealth, uXchange, Mason Stevens, Hub24, BT Panorama, AMP North, Praemium	

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