

# Prime Value Emerging Opportunities Fund (Class B) Update – March 2024

- Global share markets were broadly higher in March on strong US economic data and supportive interest rate comments from the US Fed.
- The fund's return was +1.8% for March, which was 3.0% below the Small Ordinaries Accumulation Index (+4.8%) and 1.7% below the Small Industrials Accumulation Index (+3.5%). Resources materially outperformed Industrials, with no profitable industrial companies featuring in the Top 10 index performers, while making up just 8 of the Top 30.
- We feature the fund's investment in REG which has delivered a total return of >100% in 2½ years. This was an example of an unloved stock/sector that was overlooked by investors despite trading at a deep asset valuation discount with positive catalysts on the horizon.

The Prime Value Emerging Opportunity Fund was established in October 2015 with only one class of units (Class A units) until January 2024 when a new class of units (Class B units) were created with a different performance fee structure to provide investors with an alternative. To give a longer term view of performance in the table below we have also shown longer term returns for the Class A units. Class B units have identical investments and calculation of management fees, however, the returns may differ reflecting differences in the calculation of performance fees.

	Class B Total Return*	Class A Total Return*	Small Ordinaries Accumulation	Value Add	Small Industrials Accumulation	Value Add
7 Years (p.a.)	-	11.5%	6.8%	4.7%	6.2%	5.3%
5 Years (p.a.)	-	12.6%	5.4%	7.2%	4.9%	7.7%
3 Years (p.a.)	-	5.8%	2.7%	3.1%	1.7%	4.1%
1 Year	-	16.6%	13.8%	2.8%	20.5%	-3.9%
3 Months	-	4.7%	7.5%	-2.8%	9.6%	-4.9%
1 Month	1.8%	-	4.8%	-3.0%	3.5%	-1.7%

\* 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 an indicator of future performance.

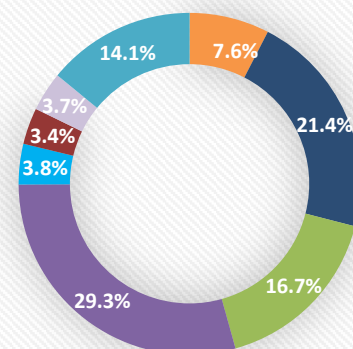
	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	FYTD	ITD
FY 2024	-	-	-	-	-	-	-	0.9%	1.8%				2.8%	2.8%

Top five holdings (alphabetical order)	Sector
AUB Group	Financials
EQT Holdings	Financials
Kelsian Group	Industrials
News Corporation	Communication Services
Propel Funeral Partners	Consumer Discretionary

\* The top five holdings make up approximately 25.1% 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	Small Industrials Accumulation Index (XSIAI)
Fund Inception date	8 October 2015
Class B commencement date	31 January 2024
Typical number of stocks	25-50
Cash	0 - 20%
Unlisted Exposure	0 – 20%
International Exposure	0 – 20%
Distributions	Half-yearly
Suggested Investment Period	3 + years
Research Ratings	Zenith – Highly Recommended

## Holdings by Sectors



## Market review

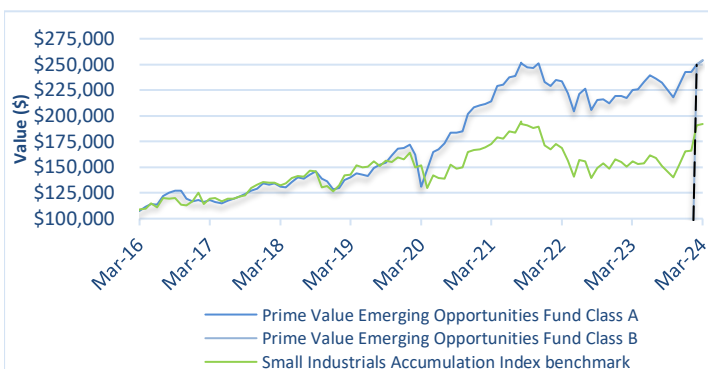
March saw the equity markets' strong run continue, as hopes firmed that both the US and Australian economies will be largely immune to the cyclical risks many foresaw. The MSCI Developed Markets Index rose +3.4%, while the S&P500 Index also strengthened (+3.2%). Emerging Markets underperformed Developed Markets, with the MSCI Emerging Market Index +2.5% in USD terms.

The Australian 10-year government bond yield fell 17 basis points over the month to 3.97%. US yields also declined, stepping down 4 basis points to 4.20%. Commodity prices were mixed. Brent Oil rose US\$3.86 to US\$87.48/bbl, whilst China macro concerns saw Iron Ore prices fall by US\$15.50 to US\$102.00/Mt. Over the month, Gold prices hit another record high, increasing by US\$166.30 to US\$2,214.35 per ounce.

The ASX300 Accumulation Index rose for a fifth consecutive month in March, bouncing from mid-month lows and the ASX300 Index setting another high of 7,848 points along the way. For the month, the ASX300 Accumulation Index was up 3.3%. The materials sector recovered from the recent run of losses, despite a decline in Iron Ore prices – the copper and gold complexes has led the sector up globally thus far this year.

Except for the Communication Services sector, all ASX sectors closed higher with the breadth of relative outperformance more constrained to the Real Estate, Energy, Utilities and Materials sectors. Small caps continued to outperform large caps, with a +1.8% point relative gain in March, driven by a bounce in the Resources sector performance, which outperformed Industrials across all size biased indices.

**The Prime Value Emerging Opportunity Fund was established in October 2015 with only one class of units (Class A units) until January 2024 when a new class of units (Class B units) were created with a different performance fee structure to provide investors with an alternative. To give a longer term view of performance we have shown the longer term returns for the Class A units. Class B units have identical investments and calculation of management fees, however, the returns may differ reflecting differences in the calculation of performance fees.**



This graph shows how \$100,000 invested in the Prime Value Emerging Opportunity Fund Class A at the Fund's Inception to February 2024, and then in Prime Value Emerging Opportunity Fund Class B from the end of February 2024, has increased to \$254,300 (net of fees). This compares with the return of the benchmark (Small Industrials Accumulation Index), where a \$100,000 investment would have increased to \$181,200 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 an indicator of future performance.

	Investment (Class B)
APIR Code	PVA3186AU
Minimum Investment	\$20,000
Issue price	\$1.0316
Withdrawal price	\$1.0234
Distribution	-
Indirect Cost Ratio (ICR)	1.25%*
Performance fee	20%**

\* Unless otherwise stated, all fees quoted are inclusive of GST and less the relevant RITC \*\*Of performance (net of management fees) in excess of the agreed benchmark.

### Mail:

Prime Value Asset Management Ltd  
Level 9, 34 Queen Street, Melbourne VIC 3000  
T: 03 9098 8088  
E: [info@primevalue.com.au](mailto:info@primevalue.com.au)  
W: [primevalue.com.au](http://primevalue.com.au)

## Fund review & strategy

The fund returned +1.6% in March, which was 3.2% below the Small Ordinaries Accumulation Index return of +4.8%, and 1.9% below the Small Industrials Accumulation Index return of +3.5%.

The month saw Resources (+8.5%) materially outperform Industrials (+3.5%), with the risk-on backdrop seeing strong performances from the more speculative end of the market. We note that no profitable industrial companies (our targeted investment universe) featured in the Top 10 index performers, while making up 8 of the Top 30 index performers.

Given the fund's focus on investing in profitable industrial companies with predictable and resilient earnings growth, it is not uncommon for the fund to trail the index during speculative rallies, with these rallies typically not proving durable.

Key fund contributors were **Regis Healthcare** (REG +12.5%), **Hotel Property Investments** (HPI +15.0%) and **Service Stream** (SSM +12.9%). Key detractors were **Collins Foods** (CKF -7.8%), **Propel Funeral Partners** (PFP -2.5%) and **Chorus** (CNU -3.7%).

**Regis Healthcare** (REG) is one of Australia's largest aged care operators, with the fund initially investing in it as an Asset Realisation / Valuation opportunity 2½ years ago. This category describes companies that trade at a deep valuation discount (whether that be relative to asset value or free cash flow generation), with assets or prospects that are unrecognised due to investor short-termism. Over time, Asset Realisation / Valuation companies have represented 10-15% of the fund by weight.

At the time of investment, the aged care industry was at a low ebb of the government funding cycle, with >50% of operators losing money, the listed operators trading below bed replacement value, a lack of incentives for the industry to invest in new beds, and Covid driving lower occupancy, labour shortages, and higher operating costs. On the flip-side, there was no question over the rising long-term demand for aged care beds, while several industry reforms were under discussion, and, in our view, were likely to deliver positive industry outcomes.

Fast forward 2½ years and these industry reforms have ultimately proved more positive than expected, with operators receiving a >35% uplift in government funding per bed (in part to cover significant mandated wage and care increases), as well as the deregulation of bed licences to incentivise investment into new beds. Further, the recent Aged Care Taskforce report recommends additional benefits to operators, including further increases to funding (daily living costs) and RAD retention.

From the fund's initial investment, the total return on REG shares has been >100% and the Asset Realisation / Valuation opportunity has played out. As such, in addition to taking some profits and reducing the fund's holding in REG, we have also re-categorised it as a Specific Growth investment, with the new industry reforms in place (and still under discussion) providing operators the incentive to once again invest in new bed capacity to close the supply deficit that is forecast in the years ahead.

Top Contributors (Absolute)	Sector
Regis Healthcare	Health Care
Hotel Property Investments	Real Estate
Service Stream	Industrials
Top Detractors (Absolute)	Sector
Collins Foods	Consumer Discretionary
Propel Funeral Partners	Consumer Discretionary
Chorus	Communication Services

### Contact details:

Nathan Wares - Director, Distribution  
E: [nwares@primevalue.com.au](mailto:nwares@primevalue.com.au)  
M: +61 419 542 646

Julia Desimone - Director, Distribution  
E: [jdesimone@primevalue.com.au](mailto:jdesimone@primevalue.com.au)  
M: +61409 039 057