# Prime Value Emerging Opportunities Fund Update (Class A) – April 2024

PrimeValue
Building Wealth Together

- Equity markets fell in April, the first negative month since October 2023, driven by higher than expected inflation and rising bond yields.
- The fund's return of -3.1% for April was in-line with the Small Ordinaries Accumulation Index (-3.1%) and 1.9% better than the Small Industrials Accumulation Index (-5.0%). Resources materially outperformed Industrials.
- Our investment process focuses on businesses that are easy to understand with an earnings outlook that can be forecast with confidence. This leads us to more economically resilient companies with structural growth drivers that can deliver consistent and long duration growth.

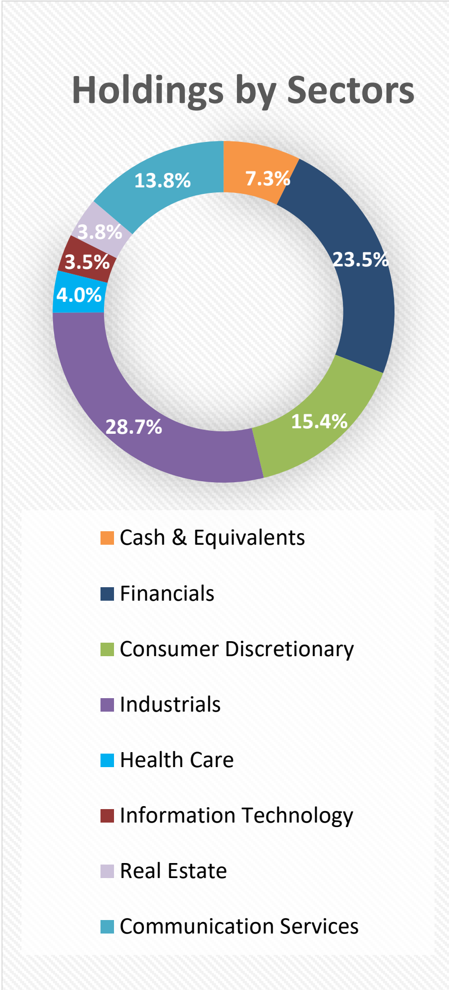
| | Total Return* | Benchmark (8% pa) | Value Add |
|---|---|---|---|
| Since Inception (p.a.) | 11.1% | 8.0% | 3.1% |
| 7 Years (p.a.) | 11.3% | 8.0% | 3.3% |
| 5 Years (p.a.) | 11.3% | 8.0% | 3.3% |
| 3 Years (p.a.) | 2.4% | 8.0% | (5.6%) |
| 1 Year | 9.3% | 8.0% | 1.3% |
| 3 Months | (0.6%) | 1.9% | (2.5%) |
| 1 Month | (3.1%) | 0.6% | (3.7%) |

* 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% | 5.1% | 2.1% | 0.9% | 1.6% | (3.1%) | | | **5.8%** | **146.0%** |

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

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



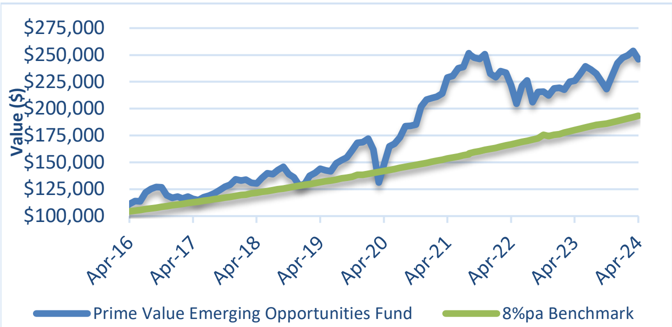

| Feature | Fund facts |
|---|---|
| Portfolio Manager | Richard Ivers & Mike Younger |
| Investment objective | Achieve superior total returns by providing medium to long term capital growth by investing in smaller capitalisation companies. |
| Benchmark | 8% p.a. |
| Inception date | 8 October 2015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

## Market review

This year's strong equity markets paused in April as inflation indicators surprised to the upside whilst geopolitical friction persisted. Interest rate sensitive stocks struggled on the realisation that central banks may not cut interest rates as soon as previously thought. The MSCI Developed Markets Index fell (-3.2%), along with the S&P500 Index (-4.1%) in local currency terms. Emerging market equities performed better with the MSCI EM Index +1.4% due to a strong China (MSCI China Index +6.5%).

The Australian 10-year government bond yield increased 46 bps in April to 4.42%. US yields also increased, up 48 bps to 4.68%, its highest level since October 2023. Geopolitics supported commodity prices, with Brent Oil +US$0.92 to US$88.40/bbl, whilst Iron Ore increased US$16.00 to US$118.00/Mt. April saw Gold prices hit another record high, increasing US$119.20 to US$2,333.55 per ounce.

Most sectors on the ASX were down April, with the exception of Utilities and Materials which were both positive. The ASX300 Accumulation Index return was -2.9% ending five months of gains. Interest rate-sensitive sectors fared the worst, most notably Real Estate (-7.7%) and Consumer Discretionary (-5.1). Energy was down (-4.7%) whilst Metals & Mining was up (+1.8%). Despite this the Resources sector still outperformed Industrial companies across the various size cohorts most notably in Mid-Caps where the spread was widest (+10%). Contribution from large-cap miners was mixed, with Rio Tinto and South 32 adding 25bps on aggregate, somewhat offsetting BHP losses (-28bps). There were broad-based declines across size biased indices in April, with mid-caps outperforming on a relative basis.




This graph shows how $100,000 invested at the Fund's Inception has increased to $246,000 (net of fees). This compares with the return of the benchmark, where a $100,000 investment would have increased to $193,400 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 (Class A) |
|---|---|
| APIR Code | PVA0013AU |
| Minimum Investment | $20,000 |
| Issue price | $1.9988 |
| Withdrawal price | $1.9828 |
| Distribution (31/12/2023) | $0.0286 |
| 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

## Fund review & strategy

The fund returned -3.1% in April, in-line with the Small Ordinaries Accumulation Index return of -3.1%, and 1.9% better than the Small Industrials Accumulation Index return of -5.0%.

We live in a complex world so we try to keep our investment process relatively simple. Businesses that are easy to understand with an earnings outlook that can be forecast with confidence. This leads us to more economically resilient companies with structural growth drivers and management we can trust.

Businesses that are highly exposed to the economic cycle are not our focus (unless very under-valued). The difficulty of trying to pick the cycle has been highlighted in 2024. In early 2024 there was confidence of rate cuts later this year causing many to buy consumer discretionary stocks (nb retail) in anticipation of an upturn. That positive sentiment reversed in April due to a high inflation numbers that delayed rate cut expectations and some weak company trading updates. Premier Investment's (a high quality retailer) share price was +15% in Feb/March but -15% in April/May to date. In recent days, former market darling Baby Bunting provided a weak trading update and the stock is -35% over April/May. Picking the cycle in anticipation of an upturn is challenging.

Examples of more economically resilient companies include Propel Funerals, a leading Australia and New Zealand funeral operator that has almost certain long term volume growth as the growing and ageing population causes a rising death rate. As is often said, the only certainty in life is death and taxes. Another is EQT Holdings, a trustee business founded in 1888 that has revenue streams with decades of visibility and in some cases perpetual and growing (perpetual charitable trusts).

These long duration, consistent and growing earnings streams are highly valuable. In our view, the small cap market places an over-emphasis on short term earnings growth and an under-emphasis on the duration and consistency of earnings. Large cap stocks with modest growth profiles but long duration & consistency can trade on very high valuation multiples. For example Australia's largest toll-road (Transurban) trades on a valuation multiple roughly twice the market average (1 yr forward 21x EV/EBITDA) with a 3 year growth profile of c. 6% p.a. To be clear, we value growth. However duration and consistency plays a critical role in the compounding equation.

For example if you have 2 businesses that are otherwise identical; company A grows its earnings at 10% p.a. consistently while company B grows +30% in year 1 and -10% in year 2 (simple average 10% p.a.) and continues this sequence of +30%/-10%. After 10 years the earnings of company A will be 18% higher than company B and experience far less volatility. Clearly company A should trade at a higher multiple of current earnings than company B. The tortoise outperforms the hare.

This analogy is also relevant when choosing a fund. Low downside capture is very valuable in delivering long term returns.

| Top Contributors (Absolute) | Sector |
|---|---|
| SG Fleet | Industrials |
| EQT Holdings | Financials |
| Alliance Aviation | Industrials |
| **Top Detractors (Absolute)** | **Sector** |
| News Corp | Communication Services |
| AUB Group | Financials |
| Credit Corp | Financials |

| Platforms |
|---|
| Netwealth, uXchange, Mason Stevens, Hub24, BT Panorama, AMP North, Praemium |