

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

- 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 -3.3% for April was in-line with the Small Ordinaries Accumulation Index (-3.1%) and 1.7% 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.

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.)	-	11.3%	6.4%	4.9%	5.3%	6.0%
5 Years (p.a.)	-	11.3%	3.9%	7.4%	2.6%	8.7%
3 Years (p.a.)	-	2.4%	0.0%	2.4%	(1.3%)	3.7%
1 Year	-	9.3%	7.4%	1.9%	10.4%	(1.1%)
3 Months	(0.6%)	-	3.3%	(3.9%)	2.1%	(2.7%)
1 Month	(3.3%)	-	(3.1%)	(0.2%)	(5.0%)	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.

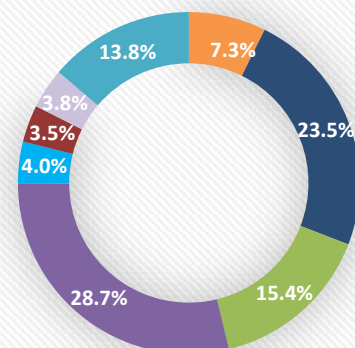
	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	FYTD	ITD
FY 2024	-	-	-	-	-	-	-	0.9%	1.8%	(3.3%)			(0.6%)	(0.6%)

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	Small Industrials Accumulation Index (XSIAL)
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



- Cash & Equivalents
- Financials
- Consumer Discretionary
- Industrials
- Health Care
- Information Technology
- Real Estate
- Communication Services

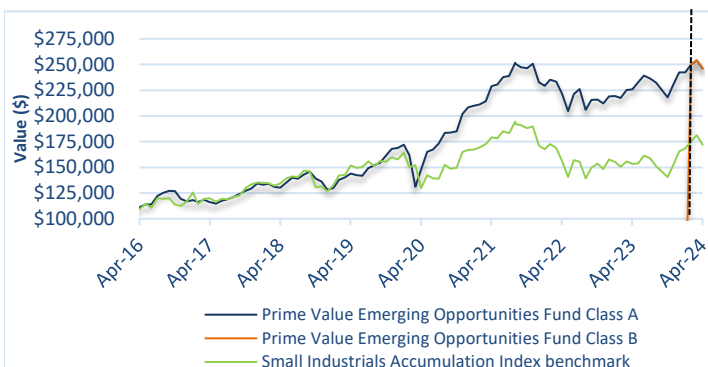
## Market review

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.

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This graph shows how \$100,000 invested in the Prime Value Emerging Opportunity Fund Class A at the Fund's Inception has increased to \$246,000 (net of fees). This compares with the return of the benchmark (Small Industrials Accumulation Index), where a \$100,000 investment would have increased to \$172,100 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	\$0.9978
Withdrawal price	\$0.9898
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.

## Fund review & strategy

The fund returned -3.3% in April, in-line with the Small Ordinaries Accumulation Index return of -3.1%, and 1.7% 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

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