

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



- Global stock markets were weaker in December following a more hawkish than expected US Federal Reserve update during the month.
- The fund's return of -0.9% in December was 2.2% better than the Small Ordinaries Accumulation Index & Small Industrials Accumulation index, both of which were -3.1%. A distribution of 3.5c/unit for the 6 months to December was paid to unitholders in early January
- Combining Class A for January with Class B from inception in February 2024, the fund outperformed the Small Ordinaries Accumulation index in calendar year 2024. This was the 7<sup>th</sup> consecutive year of outperformance through what has been a highly volatile period.

The Prime Value Emerging Opportunity Fund was established in 8 October 2015 with only one class of units (Class A units) until 31 January 2024 when a new class of units (Class B units) was 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.)	-	10.5%	4.4%	6.1%	4.6%	5.9%
5 Years (p.a.)	-	9.9%	4.0%	5.9%	3.3%	6.6%
3 Years (p.a.)	-	2.6%	(1.6%)	4.2%	(0.8%)	3.4%
1 Year	-	11.6%	8.4%	3.2%	12.1%	(0.5%)
3 Months	4.1%	-	(1.0%)	5.1%	(0.4%)	4.5%
1 Month	(0.9%)	-	(3.1%)	2.2%	(3.1%)	2.2%

\* 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.

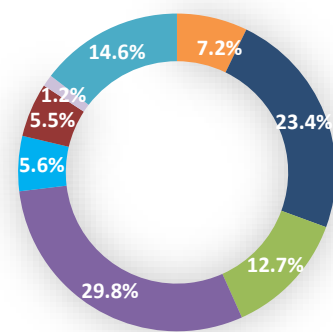
	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	FYTD	ITD
FY 2024	-	-	-	-	-	-	-	0.9%	1.8%	(3.3%)	0.2%	1.9%	1.4%	1.4%
FY 2025	3.2%	(1.8%)	3.9%	1.5%	3.5%	(0.9%)	-	-	-	-	-	-	9.5%	11.1%

Top five holdings (alphabetical order)	Sector
AUB Group Limited	Financials
Hansen Technologies Limited	Information Technology
News Corporation Limited	Communication Services
Propel Funeral Partners Limited	Consumer Discretionary
SG Fleet Group Limited	Industrials

\* The top five holdings make up approximately 21.8% of the portfolio

Feature	Fund facts
Portfolio Manager	Richard Ivers & Mike Younger
Investment objective	The Fund seeks to achieve strong total investment returns by providing medium to long term capital growth through investing predominantly in companies listed on the Australian Stock Exchange with smaller capitalisations. A long only concentrated fund that leverages Prime Value's fundamental research capabilities while minimizing the risk of permanent capital loss
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

## Holdings by Sectors



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

## Market review

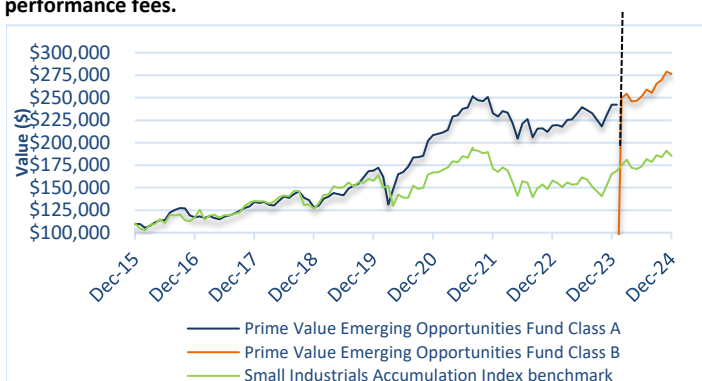
Global stock markets were down in December, as hawkish US interest rate data prompted somewhat of a 'reassessment' on stock valuations that had already priced in much optimism. The MSCI Developed Markets Index fell 1.9% in the month. In the US, the S&P500 and Dow Jones indices fell -2.5% and -5.3% respectively driven by a shift in US FOMC projections which saw inflation forecasts revised higher and a move in the US Federal Reserve dot plots, implying fewer interest rate cuts ahead. However, the Nasdaq Index rose 0.5% on continued enthusiasm for technology stocks.

All of the major currencies appreciated against the Australian Dollar in December, with the US Dollar appreciating 5.2%.

Australian equities reversed the gains posted in November, with the S&P/ASX300 Accumulation Index closing the month 3.1% lower. The ASX reached a new all-time high early in the month but faced significant selling pressure following the more hawkish tone from the US Federal Reserve. The REITs sector was impacted the hardest, ending the year at 4-month lows. Materials, banks and technology sectors also performed poorly for the month with the consumer staples, utilities, industrial and energy sectors posting minor gains. The S&P/ASX300 Index underperformed the Small Ordinaries by 0.1% in December, with the underperformance driven by a weaker ASX300 Resources sector.

All size biased indices closed higher in 2024, with midcaps outperforming large and small cap counterparts, returning +12.4% including dividends. Industrials were preferred over Resources for the duration of 2024, with the performance spread widest across large and midcap sectors. Technology, Financials and Discretionary sectors performed best, while Energy and Materials were notable laggards.

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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 \$270,600 (net of fees). This compares with the return of the benchmark (Small Industrials Accumulation Index), where a \$100,000 investment would have increased to \$185,400 over the same period. The returns exclude the benefits of imputation credits. Performance figures have been calculated in accordance with the 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 (Ex)	\$1.0587
Withdrawal price (Ex)	\$1.0503
Distribution (31/12/2024)	\$0.0346
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 -0.9% in December, 2.2% above the Small Ordinaries and Small Industrials Accumulation indices (both -3.1%).

Relative performance was tougher in the risk-on period at end of 2023/early 2024 but has been consistent since May 2024. The fund has outperformed the Small Ords in 6 of those 8 months for a total of 8.0% (11.9% v's 3.9%). This gives us confidence as we enter 2025.

Our focus is delivering consistent returns for investors. We don't try to achieve the highest returns in any one year as this typically requires significant risk. We play the long game of buying businesses with durable, long-term earnings streams. In our view, investor focus in small caps is overly focused on near term *growth* while *duration* is overlooked.

To us a business delivering an earnings stream for decades with certainty is far more valuable than one in a sweet spot of short-term growth but an uncertain long-term outlook. "Quality" is a term often used but rarely questioned. In our experience quality businesses with earnings duration also achieve earnings growth (nb over the long term) – it's not a trade-off. They can grow volumes with the economic growth tailwind and raise prices.

Two notable examples of long duration, attractively priced stocks we currently hold are **Auckland Airport** (New Zealand's leading airport) and **Napier Port** (a port in Hawke's Bay, New Zealand). Both happen to be New Zealand infrastructure with monopoly characteristics that we are highly confident will be generating an earnings stream for decades to come. There many examples of small cap stocks with challenged business models trading on higher valuation multiples than these two companies.

In the context of striving for consistency, it was pleasing the fund achieved its 7<sup>th</sup> consecutive year of outperformance against the Small Ordinaries and Small Industrials indices in 2024 (using Class A in January and Class B from inception in February 2024). On the face of it, 2024 was a strong year however to us it was a good year but with missed opportunities and learnings. We hold ourselves to a high standard and have made incremental improvements.

The top 3 positive contributors to 2024 were **Regis Healthcare** (+2.2% to returns), **Pinnacle** (+2.1%) and **SG Fleet** (+1.5%). All are still held and have been in the fund at least 3 years highlighting our long term approach. The bottom 3 contributors were **Kelsian** (-2.4%), **Corporate Travel** (-1.0%) and **Webjet** (-0.8%). Two of these were relatively new additions and we have exited one as the investment thesis deteriorated.

Compared to 12 months earlier, cash levels are similar but there are 4 less stocks in the fund highlighting higher conviction in our holdings. In 2024 we exited 12 stocks and added 8 new holdings, 6 of which have already been positive contributors highlighting a high strike rate.

The portfolio's earnings per share (EPS) growth over the next 2 years is 12% p.a., roughly in line with historical levels, dividend yield is 3% p.a. and FY26 PE is 18.5x, in line with the Small Industrials sector.

Top Contributors (Absolute)	Sector
Restaurant Brands	Consumer Discretionary
Redox	Industrials
Napier Port	Industrials
Top Detractors (Absolute)	Sector
Regis Healthcare	Healthcare
Hansen	Information Technology
Credit Corp	Financials
Platforms	
Netwealth, Hub24	

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