Prime Value Emerging Opportunities Fund Update – May 2022

- Concerns regarding higher inflation and interest rates continued to impact markets in May.
- The fund returned -5.0% in May, 2.0% better than the Small Ordinaries Accumulation Index of -7.0%.
- Markets remain volatile and we have written a longer commentary this month outlining the key issues and why we are confident long term.

	Total Return*	Benchmark (8% pa)	Value Add
Since Inception (p.a.)	**12.7%**	8.0%	4.7%
5 Years (p.a.)	**14.1%**	8.0%	6.1%
3 Years (p.a.)	**15.9%**	8.0%	7.9%
2 Years (p.a.)	**16.0%**	8.0%	8.0%
1 Year	**-3.8%**	8.0%	-11.8%
3 Months	**-3.2%**	2.0%	-5.2%
1 Month	**-5.0%**	0.7%	-5.7%

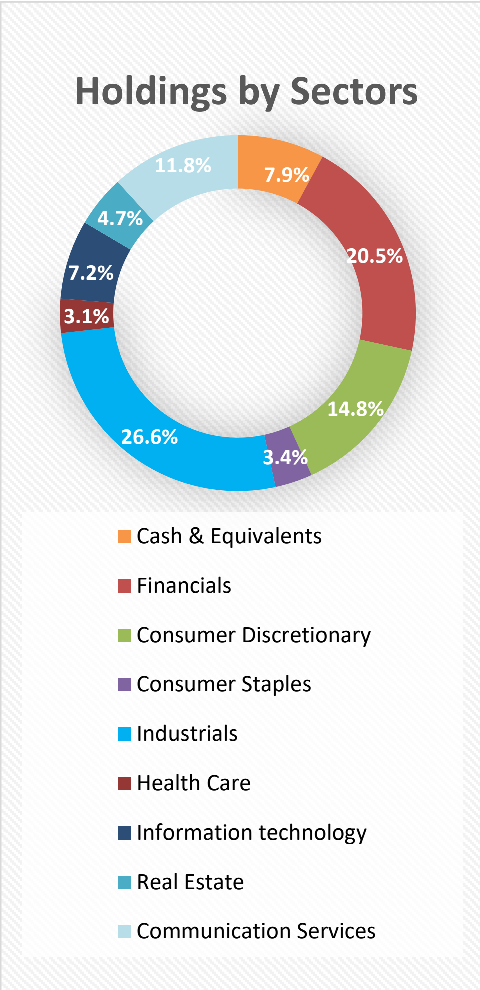
* Fund returns are calculated net of management fees and performance fees assuming all distributions are re-invested. Performance figures have been calculated in accordance with the Financial Services Council (FSC) standards. The returns exclude the benefits of imputation credits. Past performance is 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%)		**(6.6%)**	**121.9%**

Top five holdings (alphabetical order)	Sector
AUB Group	Financials
EQT Holdings	Financials
IPH Limited	Industrials
NIB Holding	Financials
Propel Funeral Partners	Consumer Discretionary

* The top five holdings make up approximately 21.3% 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 Rating	Zenith – Recommended Lonsec – Investment Grade



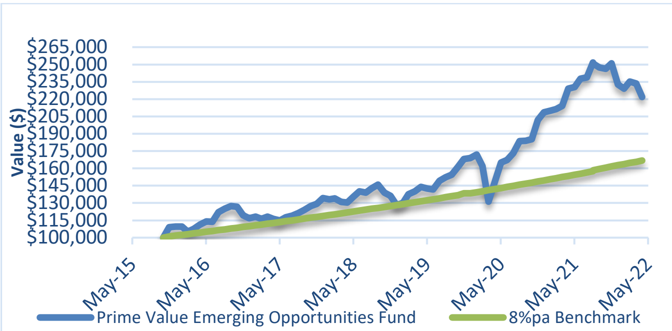
Market review

Global equities had mixed results in May, with investors weighing up the willingness of central banks to tighten monetary policy aggressively. A major concern is that the US Federal Reserve's sharp interest rate hikes could lead to a recession in the US—this is a not a current base case scenario although the risks are rising. The MSCI Developed Markets Index fell slightly (-0.2%), while the S&P500 Index lifted (+0.2%). Other developed market indices such as the FTSE100 and Euro Stoxx 50 also posted positive returns.

Australian 10-year yields sold off 22bps across May to 3.34%, as investors price in tightening monetary policy. In May, the RBA raised the cash rate by 25bps to 0.35%, its first increase since 2010.

Brent oil prices finished May at US$122/bbl, up US$12 for the month. Iron ore demand remains solid with China pig iron production stable in the second half of May; however, we observe steel demand remains weak in China. Gold is holding reasonably well above US$1,800, but the market has so far struggled to move far enough past US$1,850. Policy tightening and rising global rates ultimately create headwinds as the opportunity cost of holding gold increases.

With the exception of Materials, all sectors in the ASX trended lower in May and even then, the Materials sector was up a modest +0.1%. On a sector basis, Utilities (-0.2%) and Industrials (-0.5%) also outperformed in Australia. REITs (-8.7%), IT (-8.7%) and Consumer Staples (-6.6%) sectors underperformed. Size favoured large over mid and small cap indices, with the Small Ords Index -7.0%. At a stock level, BHP had the largest positive impact on performance and Macquarie Group the largest negative contribution partly due to going ex-dividend.



This graph shows how $100,000 invested at the Fund's Inception has increased to $221,900 (net of fees). This compares with the return of the benchmark, where a $100,000 investment would have increased to $166,800 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.

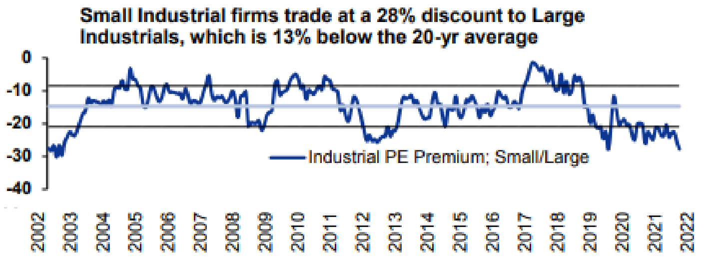
	Direct Investment
APIR Code	PVA0013AU
Minimum Investment	$20,000
Issue price	$1.9210
Withdrawal price	$1.9133
Distribution (31/12/2021)	$0.0525
Indirect Cost Ratio (ICR)	1.25%*
Performance fee	20%** p.a.

* 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

2022 has been tough for stocks, particularly Small Industrials where the Emerging Opportunities Fund invests. The Small Industrials Accumulation index is -19% for the first 5 months of 2022 and the fund is -13%. While we have outperformed the index, it gives us no satisfaction to generate a negative return for investors. We have a large proportion of our wealth invested in the fund so we are aligned and also feel the impact.

Over the long term, Small Industrials perform strongly. In the 20 years before 2022, Small Industrials generated returns above Small Resources. After the recent decline, Small Industrial valuations are now at the largest discount to Large Industrials in 20 years (chart below).



Source: Goldman Sachs

The Fund has a strong track record of outperforming the Small Industrials, with investment returns 10% p.a. higher (after fees) over the last 4 years (table below).

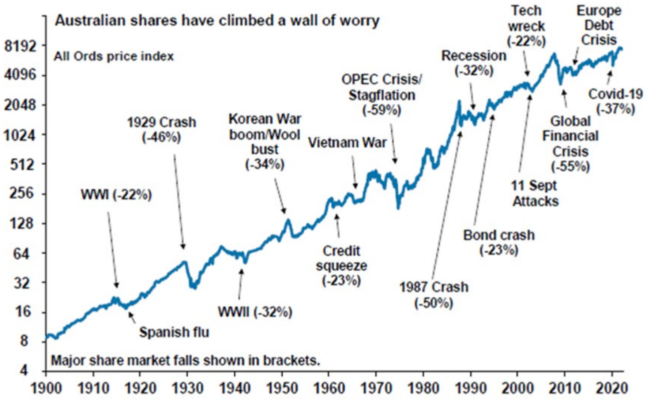
% return after fees	1 mth	3 mths	1 yr	3 yrs p.a.	4 yrs p.a.
Em Opp Fund	-5	-3.2	-3.8	15.9	13.1
Small Industrials Accum	-7.4	-6.7	-12.2	1.5	3.1
Relative	***2.4***	***3.5***	***8.4***	***14.4***	***10.0***
Small Ords Accum	-7	-3.6	-4.6	-5.5	-4.6

Source: Iress, ASX, Prime Value

Our fee structure also benefits investors in weak markets. Despite outperformance relative to the index in 2022, no performance fee is charged. This is very unusual in the industry. Our benchmark is 8% p.a. therefore we must generate a positive absolute return before a performance fee is accrued. Additionally, we have a unit price high watermark which means we must recoup all losses plus 8% p.a. before a performance fee can be achieved. This ensures we are focused on capital preservation and fees are reduced for investors.

Top Contributors (Absolute)	Sector
Propel Funeral Partners	Consumer Discretionary
Regis Healthcare Limited	Health Care
NIB Holdings	Financial
Top Detractors (Absolute)	**Sector**
AUB Group	Financials
News Corporation	Communication Services
Centuria Capital Group	Real Estate
Platforms	
Netwealth, uXchange, Mason Stevens, Hub24, BT Panorama	

The equity market goes through cycles but over the long-term, returns are very strong. The chart below illustrates that over time markets have confronted numerous crises with large falls at times but have always recovered and gone higher.



Source: ASX, AMP

The current cause of weak markets is high inflation due its negative impact on real economic growth. Consequently, central banks are very focused on reducing inflation to an acceptable range of c. 2%-3% by increasing interest rates to slow the economy. Higher interest rates have a negative impact on valuation multiples and can reduce future earnings if a significant economic slowdown occurs.

Equity markets are forward looking and have already started to price-in higher rates which is why the Small Industrials has had such a weak 2022 to date. The short-term direction of markets will largely be determined by inflation data and its implications for interest rates. Economist's track record at forecasting inflation has not been good.

However we do not view an investment in the Fund as an investment in "the market". The fund is made up of approximately 40 individual companies, each of which we believe has a strong long-term outlook. We have positioned the fund relatively defensively, with c. 11% cash (including 1 stock nearing takeover completion) and a strong bias to those companies less dependent on the economic cycle. This is evidenced by the Fund's outperformance in weak markets in 2022.

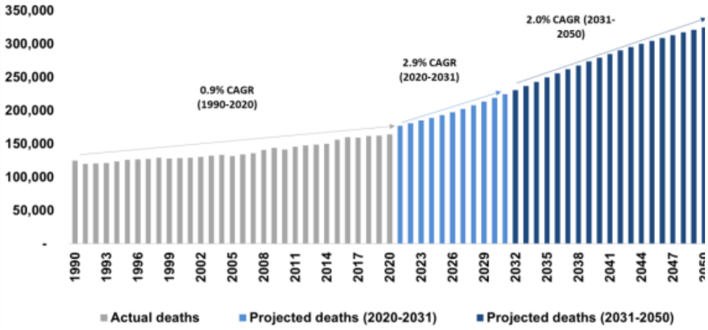
Economic data will determine how we continue to position the portfolio. We have room to become more defensive or aggressive but regardless of which direction we will remain opportunistic. History has shown that the best opportunities arise in times of change. The Fund's 2 portfolio managers each have c. 20 years Australian small cap experience, have worked through several economic cycles and know the businesses on offer on the stock market.

In the most recent market downturn of 2020, the Fund returned +24% for the year (after fees) and outperformed in both the down period (Feb-Mar '20, outperformance 5%) and the following rebound (Apr-Dec '20, outperformance 10%). These numbers are relative to the Small Ordinaries - relative to the Small Industrials outperformance was larger. The Fund was one of the top performing in Australia in 2020. While periods of uncertainty can be un-nerving they are also one of great opportunity.

Just like forecasting inflation, timing the equity market is also extremely difficult. Markets are forward looking and typically bottom well before economic data. For example in 2020, markets bottomed in March, well before the worst of covid infections and lockdowns. Consequently we believe in the old adage "time in the market, not timing the market". Equities generate very strong returns when capital is allowed to compound over the long term.

Our investment style focuses on higher quality businesses with resilient earnings. We rarely invest in loss-making companies, have never invested in speculative areas like buy now, pay later and have little exposure to cyclical sectors like retail and housing.

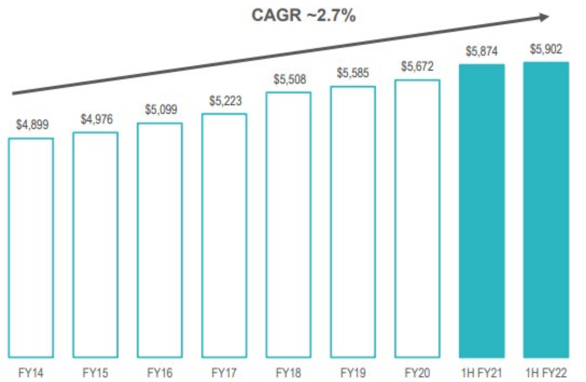
One of our largest holdings is **Propel Funeral Partners** (PFP). PFP is Australia's second largest funeral operator. A key driver of volumes is the number of deaths in Australia which are expected to accelerate from 1% p.a. to 3% p.a. over the next 10 years due to an ageing population (chart below). We expect accelerating volume growth to have a larger benefit to earnings given the fixed cost nature of the business.



Source: ABS, Propel Funerals

Death is not corelated to inflation, interest rates or the economic cycle.

In a period of higher inflation, pricing power is increasingly important. Funeral operators including PFP have demonstrated the ability to raise prices above inflation given the emotional nature of the product which is typically a large social event including family & friends. Over the last 7 years average revenue per funeral has increased 2.7% p.a. above the inflation rate of c. 1.8% (chart below).



Source: ABS, Propel Funerals

In addition to volume and price growth, PFP has a long & successful track record of undertaking bolt-on acquisitions. In October 2021, the company raised equity to re-stock the balance sheet for more acquisitions. It is now well placed to deploy this capital and accelerate earnings growth.

We expect PFP to perform strongly over coming years with the number of deaths structurally growing. Equity markets may go up and down but we have a high level of certainty that PFP's earnings will be higher in 3-5 years and are confident this will be reflected in a higher stock price.

We hold many other defensive companies that we have a high level of confidence will grow their earnings over coming years. It is very difficult to predict what value equity markets will put on those earnings in the short term. But with valuation multiples increasingly attractive, we expect stock prices to be higher in the long term.

Equity markets can be volatile in the short term but are powerful wealth creators over the long term.

Finally, should you have any questions regarding the fund or equity markets, please feel free to contact us. Managing capital for others is a privilege and we are grateful for the trust our clients place in us. We encourage you to reach out if you have any questions.

Mail:
Prime Value Asset Management Ltd
Level 9, 34 Queen Street, Melbourne
VIC 3000
Phone: 03 9098 8088

Contact details:
Andrew Russell - Director, Investor Relations
arussell@primevalue.com.au

Daniel Leong – Director, Investor Relations
daniel.leong@primevalue.com.au