

Prime Value Emerging Opportunities Fund Update – October 2022

- Strong gains in the US markets led to improved sentiment in October, on expectations the pace of interest rate hikes may slow.
- The fund's return was +4.7% in October, 1.8% below the Small Ordinaries Accumulation Index of +6.5%.
- In October, the fund was awarded Small Cap Fund of the year by Zenith Investment Partners, a leading fund research firm. It is a great honour to be recognised by an independent group and reflects not only investment performance but quality of the team and organisation. Having said that, our main focus is generating attractive investment returns rather than winning awards. With recent market movements we are finding an increased number of investment ideas including recycling capital from winners to attractive new opportunities.

	Total Return*	Benchmark (8% pa)	Value Add
Since Inception (p.a.)	11.5%	8.0%	3.5%
5 Years (p.a.)	11.1%	8.0%	3.1%
3 Years (p.a.)	10.1%	8.0%	2.1%
2 Years (p.a.)	7.9%	8.0%	-0.1%
1 Year	-12.9%	8.0%	-20.9%
3 Months	-2.6%	2.0%	-4.6%
1 Month	4.7%	0.7%	4.0%

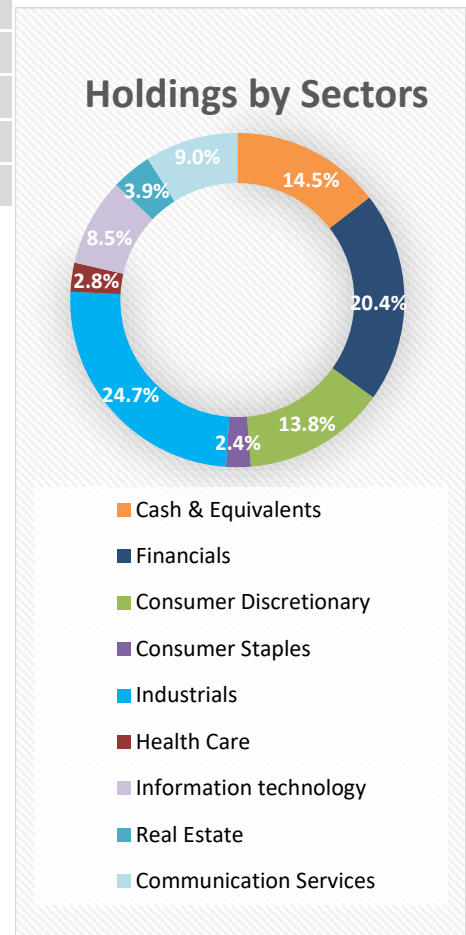
* Fund returns are calculated net of management fees and performance fees assuming all distributions are re-invested. Performance figures have been calculated in accordance with the Financial Services Council (FSC) standards. The returns exclude the benefits of imputation credits. Past performance is 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%)	(7.8)%	13.9%	104.6%
FY 2023	8.1%	2.2%	(8.9%)	4.7%									5.4%	115.6%

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

* The top five holdings make up approximately 21.9% 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 – Recommended



Market review

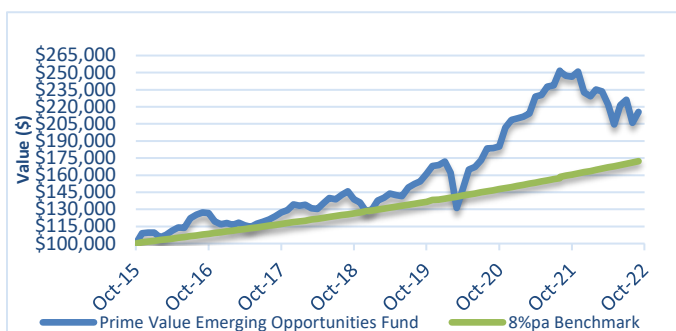
Global equity markets rallied in October led by strong gains in the US, which drove developed markets outperformance relative to emerging markets. Broadly, markets reacted to speculation central banks are nearing the peak of interest rate policy tightening which lifted sentiment in share markets. The MSCI Developed Markets Index rose (+7.5%), and the S&P500 Index gained (+8.1%). Despite underperforming the US in October, Australia continues to lead the pack in terms of year-to-date performance in 2022.

Some soft patches in recent economic data contributed to market participants contemplating once again the potential for the US Federal Reserve to be closer to the end of tightening. This triggered a move higher in gold, which spilled over to the rest of the precious metals complex. The overall uncertainty around US Federal Reserve policy and growing risks to economic growth are likely also helping gold currently hold onto much of its recent gains.

The RBA's October meeting hiked the cash rate by 25bps, to 2.60%, below market expectations of ~40bps, and a consensus of ~3/4 of economists for 50bps. Australian 10-year yields fell 13bps across October to 3.76%.

The ASX300 Accumulation Index rose +6.0% in October, mostly reversing the significant market drawdown in September. The Banks did the heavy index lifting with CBA (+124bps), WBC (+63bps), NAB (+60bps) and ANZ (+43bps) adding the most, with support from Woodside (+42bps) Financials (+12.2%), Energy (+9.5%) and Real Estate (+9.3%) rose the most in the month, whilst Consumer Staples (-0.2%) recorded the largest sector decline. Mid-caps were favoured, outperforming large and small cap counterparts. Industrials outperformed Resources across all size indices, performing best in mid-caps.

In terms of outlook, there has been a skew to analyst earnings downgrades over upgrades in AGM season. Downgrades were more likely for stocks that benefited from 2021 COVID lockdowns and had exposure to high energy and gas costs.



This graph shows how \$100,000 invested at the Fund's Inception has increased to \$215,600 (net of fees). This compares with the return of the benchmark, where a \$100,000 investment would have increased to \$172,300 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	\$1.8368
Withdrawal price	\$1.8221
Distribution (30/06/2022)	\$0.0353
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	

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Fund review & strategy

The fund's return was +4.7% in October, 1.8% below the Small Ordinaries Accumulation Index of +6.5%.

Key outperformers for the month were **Omni Bridgeway** (OBL +19.6%), **Chorus** (CNU +15.5%) and **News Corp** (NWS +14.3%). Key detractors were **NIB Holdings** (NHF -10.2%), **National Tyre & Wheel** (NTD -13.2%) and **Kelsian** (KLS -3.3%).

2022 has been a tough year for equities with the Small Ordinaries Accumulation Index -19% and the Small Industrials (where we invest) slightly worse at -22%. Yet economic growth remains strong and recent AGM updates by listed companies indicates they are broadly performing very strongly. This apparent detachment is due to equities looking ahead and reacting to; 1) higher interest rates (lower valuations), and 2) expectation of weaker economic growth ahead (cyclicals have been hit hardest).

Our underlying assumption is that 2023 will be a tough year for global growth with Australia also softening but one of the better performing regions. Consequently, we prefer domestic exposure over international and defensive growth over cyclicals. There are some exceptions to these themes where stocks have fallen so far that the risk/reward is heavily favourable and a strong balance sheet ensures durability of the business.

Stock picking remains key. In almost any circumstance, some part of the economy is doing well and small caps offer a large number of businesses & industries from which to choose. It is a large pool from which to fish.

Over the long term, stock prices follow corporate earnings so we continue to focus on companies that will have higher earnings over coming years. Markets are currently being driven by macro factors (nb inflation, interest rates) but in time this will subside and company fundamentals will return to focus and be reflected in share prices.

Current market volatility is throwing up investment opportunities. We are finding more companies that offer attractive buying, along with some existing holdings that have risen significantly and we are reducing.

The short term direction of markets is unclear and we retain a relatively high cash balance. However we are finding more opportunities and the portfolio activity we are undertaking should set us up for strong returns over coming years.

Just as equity markets have fallen significantly this year, before many other asset classes, we expect equities will be early to rebound. This is likely to occur quickly as economic data provides a glimpse of better times ahead (or even less worse times).

The portfolio was defensively biased early in this sell-off which has enabled the fund to outperform the index this year. We are now more focused on taking advantage of the opportunities this sell-off has provided by reducing the cash level and setting the fund up for strong returns over coming years.

Top Contributors (Absolute)	Sector
Omni Bridgeway	Financials
Chorus Limited	Communication Services
News Corporation	Communication Services
Top Detractors (Absolute)	Sector
NIB Holdings	Financials
National Tyre & Wheel	Consumer Discretionary
Kelsian Group	Industrials
Platforms	
Netwealth, uXchange, Mason Stevens, Hub24, BT Panorama	

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