Prime Value Emerging Opportunities Fund Update – May 2023

- US debt ceiling concerns played a key role in mixed market outcomes in May.
- The fund's return was +0.4% in May, 3.6% ahead of the Small Ordinaries Accumulation Index of -3.3%, and was also 2.1% ahead of the Small Industrials Accumulation Index return of -1.7%. Technology stocks performed best, while Resources and Retail stocks were weakest.
- We highlight within this note the importance of the entry price of an investment, which is one of the key determinants of the ultimate investment return achieved. While possibly surprising, the median Small Cap stock has traded in a range of >50% over the past year.

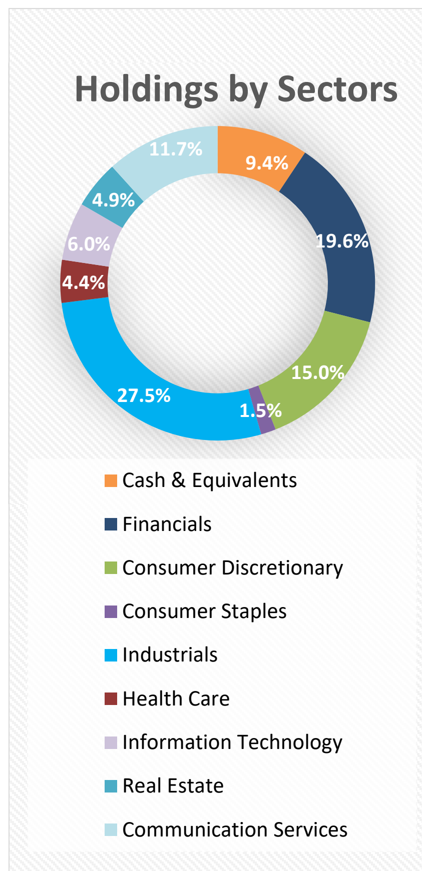
	Total Return*	Benchmark (8% pa)	Value Add
Since Inception (p.a.)	11.2%	8.0%	3.2%
7 Years (p.a.)	10.3%	8.0%	2.3%
5 Years (p.a.)	10.8%	8.0%	2.8%
3 Years (p.a.)	11.0%	8.0%	3.0%
1 Year	1.8%	8.0%	-6.2%
3 Months	3.0%	2.0%	1.0%
1 Month	0.4%	0.7%	-0.3%

* 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%		**10.4%**	**125.9%**

Top five holdings (alphabetical order)	Sector
AUB Group	Financials
EQT Holdings	Financials
IPH Limited	Industrials
Kelsian Group	Industrials
News Corporation	Communication Services

* The top five holdings make up approximately 24.4% of the portfolio



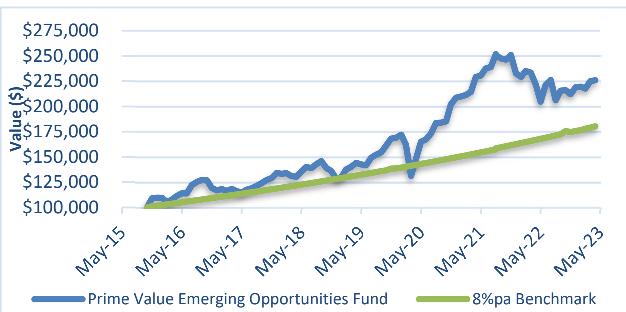
Feature	Fund facts
Portfolio Manager	Richard Ivers & Mike Younger
Investment objective	Achieve superior total returns by providing medium to long term capital growth by investing in smaller capitalisation companies.
Benchmark	8% p.a.
Inception date	8 October 2015
Typical number of stocks	25-50
Cash	0 - 100%
Unlisted Exposure	0 – 20%
International Exposure	0 – 20%
Distributions	Half-yearly
Suggested Investment Period	3 + years
Research Ratings	Zenith – Recommended Lonsec – Recommended

Market review

The MSCI Developed Markets Index fell (-0.1%) over May, while the S&P 500 Index posted a small gain (+0.4%) in a weak month for equities. Mostly, investors harboured concerns around US law makers intentions on extending the country's debt ceiling or risk a government debt default. Emerging markets outperformed developed markets, and were unchanged across the month. European share markets were mostly lower, with the FTSE100 Index and Euro Stoxx 50 Index both -4.9%. Japanese equities were strong with the Nikkei 225 Index gaining 7.0%.

Australian 10-year bond yields rose 26bps across May to 3.60%, after the RBA resumed rate hikes, raising the cash rate to 3.85% in the May-23 meeting, with 22 out of 31 polled economists expecting no change. US 10-year bond yields also rose, moving 19bps from 3.45% to 3.64%, with continued aggressive rate hikes from the US Federal Reserve. Brent Oil fell by US$6.00 to US$73.54/bbl over May. Concerns around Chinese oil demand are still putting pressure on oil prices.

The S&P/ASX300 Accumulation Index underperformed the Developed World Index, falling (-2.5%) in May, on continued rate hike expectations. At a sector level, four of the 11 sectors rose (Energy, Health Care, Technology and Utilities), with a further three (Communication Services, Industrials and Real Estate) outperforming the broader benchmark. The Technology sector was strongest (+11.6%) and was the largest contributor (+24bps) to overall market returns. On the other hand, the Materials and Financials sectors weighed heavily on market returns, detracting 197bps combined. We saw similar trends to those of April, with Mid-Caps outperforming Large-and Small-Caps in May. Industrials broadly outperformed Resources across size/macro indices, with the greatest returns spread observed within the Small Ordinaries, where Industrials closed +5.4% point above Resources.



This graph shows how $100,000 invested at the Fund's Inception has increased to $225,900 (net of fees). This compares with the return of the benchmark, where a $100,000 investment would have increased to $180,200 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	$1.8877
Withdrawal price	$1.8727
Distribution (31/12/2022)	$0.0346
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 returned +0.4% in May, which was 3.6% ahead of the Small Ordinaries Accumulation Index return of -3.3%, and 2.1% ahead of the Small Industrials Accumulation Index which fell -1.7%.

The month was characterised by strong returns from Technology and Lithium stocks, and weak performances from the broader Resources and Retail sectors, with the Small Resources Accumulation index -7.1%.

Local Technology stocks appeared to rally following a material profit upgrade from US-listed Artificial Intelligence beneficiary, NVIDIA. Conversely, softer Chinese economic data saw Resource stocks sold off, while Retail stocks were hit by signs that consumer demand is softening.

Key fund contributors in May were **Kelsian** (KLS +11.5%), **Newscorp** (NWS +11.3%) and **Austal** (ASB +19.0%). Key detractors were **AUB Group** (AUB -8.0%), **Helloworld** (HLO -10.6%) and **EQT Holdings** (EQT -3.7%).

Kelsian (KLS) rose on limited new news, and has steadily become one of the fund's largest holdings. For us, it is a reminder of the importance of investing in quality businesses at the right price. For a long time, we have been attracted to Kelsian's resilient public bus business model, that sees it generate inflation-protected cash flows with no fare box risk from long-term contracts with government counterparties, and without material capital investment in key infrastructure in some regions. However, we were not alone in appreciating these qualities, with investors pushing the stock beyond our valuation tolerance levels to >$9ps for much of 2021 following a series of contract wins and renewals. But no-one has a perfect win rate, and shortly thereafter, the company's extraordinary winning streak came to an end as it missed out on several tender opportunities. This saw investors lose faith and push the stock down into our hitting zone, resulting in our initial purchase in Jan 2022 at c. $6.50ps. Further 'disappointments' from the failed attempt to acquire a large UK bus operator saw the stock fall lower, providing the opportunity to add 25% to the fund's holding below $6ps in Sept 2022, and a further 25% addition below $5ps in Oct 2022. Through this time that the stock halved in price, nothing had changed with regards to its business model or operating performance; investors had simply fallen out of love. And just as a perfect hit rate is unobtainable, a perfect loss rate is sustained by few, and Kelsian has since enjoyed more than its market share worth of new wins through the NSW Government's recent tender process, resulting in a ~50% share price rise since (to $6.80ps). Our most recent opportunity to add to the position came in Mar 2023, participating in an equity raise (at $5.55ps) as the company acquired a large US bus business with an experienced management team and an impressive organic growth profile.

The key in this case study is the importance of the entry price of an investment; it is a key component of the returns ultimately generated. It will surprise many to learn that the share price of the median company in the Small Ordinaries index is trading 22% below its 52-week high, while also trading 29% above its 52-week low – that is, the median company has traded in a >50% share price range over the past year.

Top Contributors (Absolute)	Sector
Kelsian	Industrials
Newscorp	Communication Services
Austal	Industrials
Top Detractors (Absolute)	**Sector**
AUB Group	Financials
Helloworld	Consumer Discretionary
EQT Holdings	Financials

Platforms
Netwealth, uXchange, Mason Stevens, Hub24, BT Panorama, AMP North

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