

# Prime Value Growth Fund

## Fund Update – August 2023



- Soft Chinese economic conditions led to broad based weakness in global shares in August.
- The fund's return was -0.9% for the month of August, 0.2% below the ASX 300 Accumulation Index return of -0.7%. Most companies reported their financial results in August. The economy has softened but results were not as bad as feared.
- Consumer discretionary and real estate were the strongest performing sectors in August. Expectations were low so it highlights that equities are forward looking and valuations are important so be careful of negative reports in the media which are often backward looking.

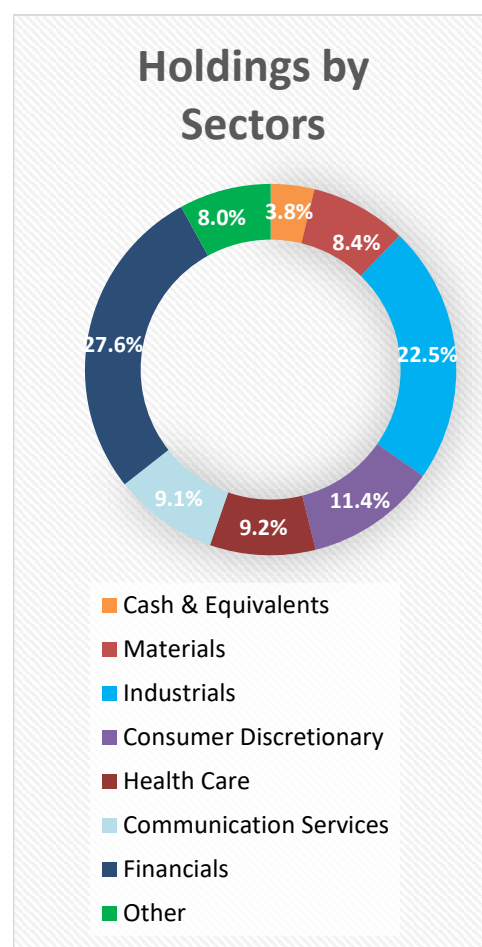
	Total Return*	S&P/ASX 300 Accumulation Index	Value Add
Since Inception (p.a.)	<b>10.3%</b>	8.1%	2.2%
20 Years (p.a.)	<b>8.6%</b>	8.7%	-0.1%
10 Years (p.a.)	<b>5.1%</b>	7.9%	-2.8%
5 Years (p.a.)	<b>4.0%</b>	7.0%	-3.0%
3 Years (p.a.)	<b>8.7%</b>	10.5%	-1.8%
1 Year	<b>6.0%</b>	9.0%	-3.0%
3 Months	<b>4.3%</b>	3.9%	0.4%
1 Month	<b>-0.9%</b>	-0.7%	-0.2%

\*Fund returns are calculated net of management fees, assuming all distributions are re-invested. Performance figures have been calculated in accordance with the Financial Services Council (FSC) standards. The returns are calculated before performance fees which are charged against individual accounts. The returns exclude the benefits of imputation credits. Past performance is not necessarily an indicator of future performance.

Top five holdings	Sector
BHP Group	Materials
Commonwealth Bank	Financials
EQT Holdings	Financials
CSL Limited	Health Care
AUB Group Limited	Financials

The top five holdings make up approximately 30.0% of the portfolio.

Feature	Fund facts
Investment Objective	To provide superior medium to long term capital growth, with some income, by managing a portfolio of predominantly Australian equities listed on any recognised Australian Stock Exchange.
Benchmark	S&P/ ASX 300 Accumulation Index
Inception Date	10 April 1998
Cash	0 - 30%
Distributions	Half-yearly
Suggested Investment Period	3 + years

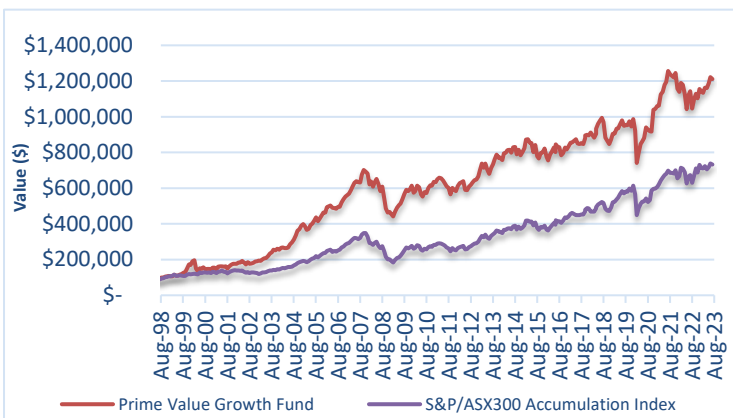


## Market review

Global shares were broadly lower in August. The MSCI Developed Markets Index fell in August (-1.7%), while the S&P500 Index also lost momentum (-1.6%) in a weak month for global equities. Emerging market equities were notably weak with the MSCI Asia ex Japan Index -4.7%, largely led by broad-based declines in the Chinese stock market. The Chinese economy has weakened more than expected in recent months, raising concerns of structural issues with the economy. Weak Chinese sentiment flowed over to weakness in Australian commodity related stocks and the Australian Dollar.

Australian 10-year yields fell 2 basis points across August to 4.03%, remaining relatively unchanged after the RBA continued its pause of rate hikes at 4.10%. US 10-year bond yields also sold off, increasing 14 basis points from 3.95% to 4.09%, on the continuation of US Federal Reserve's hawkish tone. The strengthening US Dollar coupled with escalating long-end yields has put gold in a weaker position, leaving gold's slight recovery in late August at risk of being tested. Oil prices remain near recent highs, supported by the large US crude oil inventory draw and concerns around Gabon's oil production following a military coup, although several producers have reported no impact on production.

The ASX300 Accumulation Index rallied off intra month lows but did close 0.8% lower in August. The catalyst was July headline CPI data that was surprisingly dovish and better than expected retail sales data. Discretionary, Real Estate and Energy were the notable sector leaders and contributors for the month, whilst Utilities, Staples and Technology sectors lagged. All size biased indices closed lower, with small/mid-caps the worst performing. Industrials on average fared better than Resources. A-REITS (+1.6%) were an outlier given still elevated bond yields.



This graph shows how \$100,000 invested at the Fund's inception has increased to **\$1,210,300** (net of fees excluding performance fees). This compares very favourably with the return of the market, where a \$100,000 investment would have increased to **\$732,800** 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 (Class A)	Platform Investment (Class B)
APIR code	PVA0001AU	PVA0011AU
Minimum Investment	\$20,000	N/A
Issue price	\$ 1.8071	\$ 1.8081
Withdrawal price	\$ 1.7935	\$ 1.7945
Distribution (30/06/2023)	\$ 0.0359	\$ 0.0374
Indirect Cost Ratio (ICR)*	1.435% p.a.	1.23% p.a.
Performance fee**	20.5%	20.5%

\* Unless otherwise stated, all fees quoted are inclusive of GST and less the relevant RITC  
 \*\* Of performance (net of management fees and administration costs) above the agreed benchmark, subject to positive performance and a high water mark

## Fund review and strategy

The fund returned -0.9% in August, 0.2% below the ASX 300 Accumulation Index return of -0.7%. August was reporting season when most companies report their financial results for the period to June 30. Broadly speaking, shares prices follow earnings so it is a critical time to assess how a company is performing and how it is likely to perform in future. We meet with over 100 companies during this period.

It is clear the economy is softening, which is to be expected after multiple rate rises that started in May 2022. As you would expect, the more cyclical sectors are experiencing the toughest conditions, namely media (advertising), retail and residential housing. Advertising softened from late 2022 while retail took another c. 3-6 months to be impacted (depending on the category).

Residential housing impacts were staggered with house prices softening first in mid 2022, which flowed through to weak listing volumes (houses for sale), followed by weakening household goods demand and more recently softer construction activity. Interestingly these are starting to improve in the same order with house prices starting to rise moderately c. 6 months ago, which has flowed through to higher listing volumes recently. Should this be sustained, it's likely household goods purchases and construction activity will also improve.

Cost pressures were a feature in reported results but are easing. It's easier to find employees and staff turnover is reducing. Shipping rates are typically at or below pre-covid levels after increasing c. 500% previously. Many are reporting manufacturing costs out of China have reduced. These easing pressures are being reflected in softening inflation data globally and locally which is a positive sign in that it reduces upward pressure on interest rates.

The rearview is interesting insofar as it helps assess implications for future performance. Kelsian reported a result below expectations due to challenges sourcing labour, however we view this as a short-term issue and increased our holding after the stock fell. Sourcing drivers of their buses is becoming easier and should result in an earnings uplift in 2024. The business is relatively defensive, its US acquisition was surprisingly strong and valuation is compelling in our view.

We are finding some very attractive investment opportunities in the current market. Businesses with defensive and growing earnings streams are trading at attractive valuation multiples.

Top Contributors (Absolute)	Sector
News Corp	Communication Services
Regis Healthcare	Healthcare
AUB group	Financials
Top Detractors (Absolute)	Sector
Iress	Information Technology
Omni Bridgeway	Financials
Lindsay Australia	Industrials
Platforms	
Asgard, Ausmaq, Beacon, BT Wrap, First Wrap, Hub24, IOOF, Global One, Macquarie Wrap, Netwealth, Powerwrap, Symetry, Wealthtrac	

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