# Prime Value Opportunities Fund
# Fund Update – September 2021

- Share markets were weaker in September due to concerns of slower growth ahead and central banks policy actions.
- The ASX300 Accumulation Index fell 1.9% as investors sold down companies with higher earnings certainty for cyclical sectors.
- The Fund fell 1.4% in September, outperforming the broader market's 1.9% decline. For the September quarter, the Fund is up 3.3%. We continued to receive positive updates from a number of portfolio companies, such as Newscorp and Macquarie Group.

| | Total Return* | Benchmark (8% pa) | Value Add |
|---|---|---|---|
| Since inception (p.a.) | **11.8%** | 8.0% | 3.8% |
| 7 Years (p.a.) | **10.2%** | 8.0% | 2.2% |
| 5 Years (p.a.) | **9.3%** | 8.0% | 1.3% |
| 3 Years (p.a.) | **9.3%** | 8.0% | 1.3% |
| 2 Years (p.a.) | **13.8%** | 8.0% | 5.8% |
| 1 Year | **29.6%** | 8.0% | 21.6% |
| 3 Months | **3.3%** | 2.0% | 1.3% |
| 1 Month | **-1.4%** | 0.6% | -2.0% |

* 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). 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.

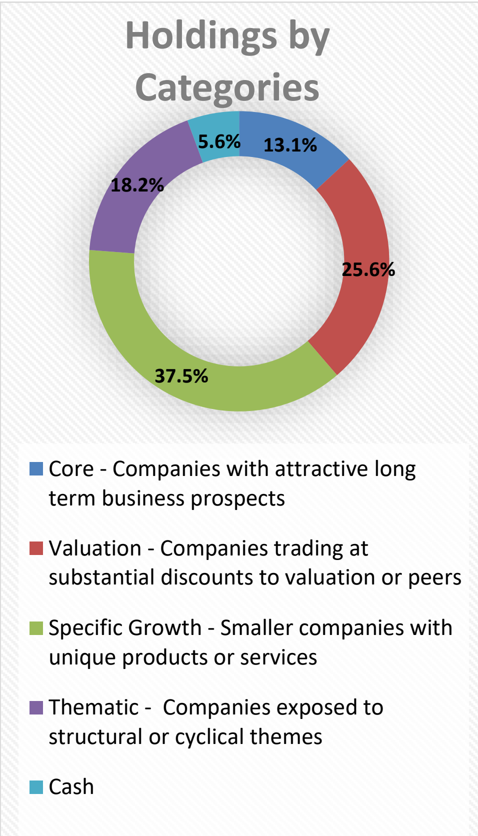
| | Jul | Aug | Sep | Oct | Nov | Dec | Jan | Feb | Mar | Apr | May | Jun | FYTD | ITD |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| FY 2013 | | | | | 1.8% | 1.7% | 4.3% | 6.2% | (0.6%) | 4.0% | (2.2%) | (1.6%) | **14.1%** | **14.1%** |
| FY 2014 | 4.4% | 2.6% | 4.3% | 5.0% | (1.1%) | 1.5% | (1.9%) | 5.9% | 0.2% | 0.3% | 0.3% | (1.4%) | **21.4%** | **38.5%** |
| FY 2015 | 2.5% | 1.0% | (4.1%) | 3.1% | (1.9%) | 0.7% | 1.5% | 5.7% | 1.4% | (1.0%) | 0.5% | (4.3%) | **4.6%** | **44.9%** |
| FY 2016 | 5.3% | (3.7%) | 0.1% | 5.5% | 1.7% | 2.4% | (3.4%) | (1.9%) | 3.6% | 2.3% | 4.4% | (1.8%) | **14.9%** | **66.5%** |
| FY 2017 | 6.5% | (1.7%) | (0.5%) | (4.9%) | (0.2%) | 2.7% | (1.1%) | 2.4% | 2.1% | 1.3% | (1.2%) | 1.2% | **6.3%** | **77.0%** |
| FY 2018 | (1.2%) | 1.0% | 0.4% | 4.2% | 1.6% | 0.4% | (0.2%) | 2.5% | (2.5%) | 3.0% | 2.1% | 2.4% | **14.3%** | **102.4%** |
| FY 2019 | 1.7% | 2.6% | (1.9%) | (8.2%) | (1.9%) | (1.8%) | 3.2% | 3.4% | 0.2% | 2.9% | 0.3% | 2.6% | **2.5%** | **107.5%** |
| FY 2020 | 2.9% | (2.3%) | 0.2% | 1.0% | 3.0% | (2.0%) | 4.9% | (5.8%) | (16.8%) | 8.0% | 5.4% | 3.0% | **(1.1%)** | **105.2%** |
| FY 2021 | 1.6% | 4.1% | (3.6%) | 0.5% | 7.9% | 2.1% | (0.1%) | 2.3% | 1.5% | 4.6% | 1.3% | 3.0% | **27.7%** | **162.0%** |
| FY 2022 | 0.9% | 3.9% | -1.4% | | | | | | | | | | **3.3%** | **170.8%** |

| Top five holdings | Sector |
|---|---|
| CSL | Health Care |
| CBA | Financial |
| NAB | Financials |
| MQG | Financials |
| BHP | Materials |

The top five holdings make up approximately 28.2% of the portfolio

| Feature | Fund facts |
|---|---|
| Portfolio Manager | ST Wong |
| Investment Objective | To achieve superior absolute total returns by providing medium to long term capital growth without the constraints of a share market benchmark. |
| Benchmark | 8.0% pa |
| Inception Date | 5 November 2012 |
| Cash | 0 - 100% |
| International Exposure# | 0 - 20% |
| Distributions | Half-yearly |
| Suggested Investment Period | 3 + years |
| Research Rating | Zenith – Recommended<br>Lonsec - Recommended |

# The Prime Value SIV Opportunities Fund will have no exposure to international securities in accordance with SIV regulations



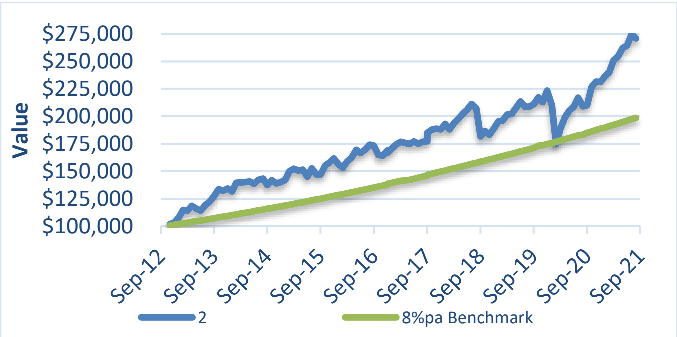
## Market review

September was a weak month for global equity markets. The combination of slowing growth concerns, central banks looking to withdraw liquidity and renewed inflationary concerns sent markets lower. The Developed World Index declined 3.6% in local currency terms, largely driven by the S&P 500 Index which dropped 4.7%. European markets followed suit with a -3% decline, with the UK -0.5%, Asia ex Japan markets -4%. Japan was an exception with the Nikkei Index up +5%.

Global bond yields rose in September, with the US 10-year government bond yield rising 24 basis points to 1.52%. The rise in yields could be driven by the US Federal Reserve increasingly signalling an earlier and faster tapering of asset purchases, as well as increased fears for persistent inflation and supply chain issues.

Brent Oil prices rose US$6/bbl to US$79/bbl. However, iron ore prices collapsed from $US247/Mt to $US110$/Mt, of the back of slowing China crude steel demand. Interestingly, Gold prices saw a material drop, falling by US$72/oz to US$1,742/oz.

After 11 sequential months of positive returns, the ASX300 Accumulation Index bucked the trend to turn negative 1.9% in September. A month of negative returns was not a unique feature for the ASX with most major regions with the exception of Japan seeing similar bias to performance. We note that the performance of the Australian share market remains strong and is up more than 14% year-to-date, including dividends. On the back of rising inflation, the cyclical Energy (+16.7%), Utilities (+2.5%), and Financials (+1.6%) sectors outperformed in Australia. The sectors which underperformed the most were the Materials sector (-9.3%), Health Care (-4.9%) and Information Technology (-3.9%).




This graph shows how $100,000 invested at the Fund's Inception has increased to $270,800 (net of fees excluding performance fees). This compares very favourably with the return of the benchmark, where a $100,000 investment would have increased to $198,500 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 | PVA0005AU | PVA0006AU |
| Minimum Investment | $20,000 | N/A |
| Issue price | $ 1.9738 | $ 1.9292 |
| Withdrawal price | $ 1.9588 | $ 1.9146 |
| Distribution (30/06/2021) | $ 0.0639 | $ 0.0631 |
| Indirect Cost Ratio (ICR)* | 0.95% p.a. | 0.95% p.a. |
| Performance fee** | 15% | 15% |

* 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 a high water mark

## Fund review and strategy

The Fund fell 1.4% in September, outperforming the ASX300 Accumulation Index's 1.9% decline for the month. The Fund had a good start to the new financial year, posting a 3.3% gain over the September quarter and is up approximately 16% so far this calendar year. The Fund's top September performance contributors included: IDP Education (+18.4%), Macquarie Group (+9.2%) and Newscorp (+8.3%). The top detractors from performance in September were: BHP (-17.5%), Uniti Group (-10.8%) and CSL (-5.9%).

Newscorp has been on a path to unlocking value across its conglomerate media structure in recent years. Divestiture of non-core assets, move to increase digitisation to complement and drive organic growth momentum, mergers and acquisitions and turning around Foxtel are broad plans to drive shareholder value—pleasingly shareholders are increasingly seeing signs of good progress. In September, Newscorp announced a US$1b share buy-back program. We believe the buyback reflects the strong operating momentum for the Group, which is being driven by its three core segments of Digital Real Estate, Dow Jones and Book Publishing. Our sequential tracking of Newscorp's quarterly results point to increasing Group profitability, with better shareholder disclosures a positive for highlighting the value of Newscorp's underlying businesses.

Macquarie Group provided guidance for the Group's 1H22 result to be 'slightly down' on 2H21, implying a range of A$1.8-2.0bn net profit for the half. It implies another quarter where profitability has approached A$1bn and sees Macquarie's 1H22 earnings materially ahead of market expectations. We have been investors in Macquarie Group for more than 6 years. During that time the share price has risen from about $80 to over $180 (early October 2021). Macquarie has become a better quality business with more sustainable earnings over the last decade. The Group has diversified its revenues and customer base and sought to invest in new sources of earnings, often investing ahead of trends.

BHP fell heavily during the month, partially reflecting the share price going ex-dividend in September (the half year dividend was 6.4% of BHP's share price). The heavy falls in the price of iron ore was the other major contributory reason. We had reduced our holding in BHP in recent months but did not anticipate the rapid decline in the price of iron ore. Our rationale for investing in BHP is premised on the company's very strong cash flows (even on much lower commodity prices),

Outlook: We believe the fundamental strength of the global economic rebound remains intact. The impact of more effective vaccine distributions globally provides confidence, and other positives suggest the economic cycle is not about to turn down. Investors should look through and navigate the many mixed messages at present. In the near term there are several challenges, as CEOs of our portfolio companies highlighted in the August corporate reporting period, such as global supply chain constraints, the stop-start approach to lock downs, and rising costs. However, they are positive on the normalisation of economies as many cite the opportunities to grow are undiminished. The Fund's holdings are diversified but we are invested in a number of higher growth companies that we believe will emerge larger and successful over the next few years.

| Top contributors (absolute) | Sector |
|---|---|
| IDP Education | Consumer Discretionary |
| Macquarie Group | Financials |
| News Corporation | Communication Services |

| Top detractors (absolute) | Sector |
|---|---|
| BHP | Materials |
| Uniti Group | Communication Services |
| CSL | Healthcare |

| Platforms |
|---|
| BT Wrap, Macquarie Wrap, Netwealth, Hub24, Powerwrap |

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