# Prime Value Emerging Opportunities Fund Update – October 2021

- Global markets recovered strongly in October following a softer September, while Australia was more muted in October.
- The fund returned -1.4% in October, 2.3% below the Small Ordinaries Accumulation Index of +0.9%. Returns were impacted by several large holdings which drifted lower and relative performance was impacted by a strong mining sector (in which we don't invest).
- We have added several new stocks to the portfolio in recent months which we expect to deliver strong returns over multiple years.

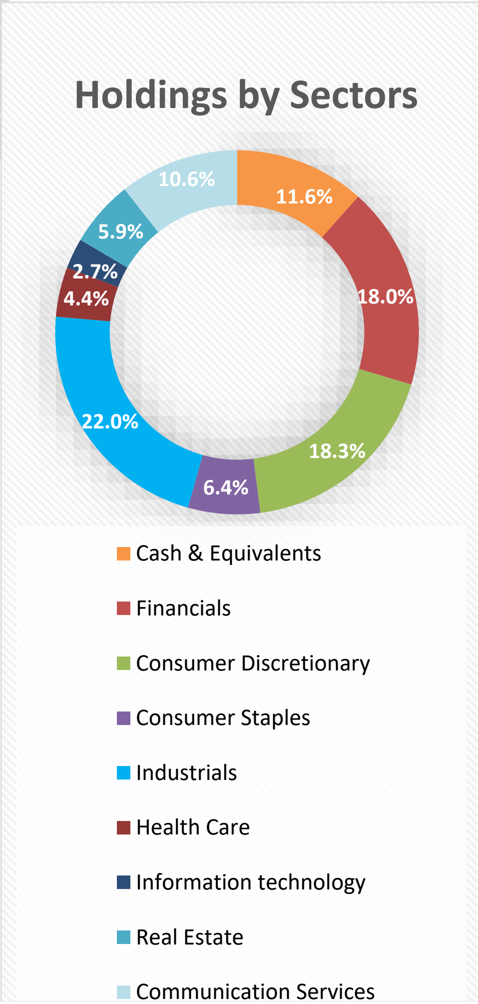
| | Total Return* | Benchmark (8% pa) | Value Add |
|---|---|---|---|
| Since Inception (p.a.) | **16.1%** | 8.0% | 8.1% |
| 5 Years (p.a.) | **14.3%** | 8.0% | 6.3% |
| 3 Years (p.a.) | **21.2%** | 8.0% | 13.2% |
| 2 Years (p.a.) | **23.8%** | 8.0% | 15.8% |
| 1 Year | **33.6%** | 8.0% | 25.6% |
| 3 Months | **3.5%** | 2.0% | 1.5% |
| 1 Month | **-1.4%** | 0.7% | -2.1% |

* 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%) | | | | | | | | | **4.1%** | **147.4%** |

| | |
|---|---|
| Mainfreight | Industrials |
| News Corp | Communication Services |
| NIB Holdings | Financials |
| Uniti Group | Communication Services |

* The top five holdings make up approximately 19.5% of the portfolio



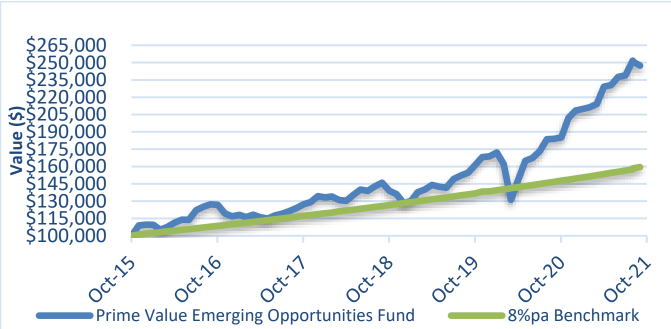

| Feature | Fund facts |
|---|---|
| Portfolio Manager | Richard Ivers |
| Investment objective | Achieve superior total returns by providing medium to long term capital growth by investing in smaller capitalisation companies. |
| Benchmark | 8% p.a. |
| Inception date | 8 October 2015 |
| Typical number 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 – Rated<br>Lonsec - Rated |

## Market review

Global equity markets rebounded strongly in October, following a weak September, with the MSCI World Index gaining 5.7%. The gains were led by the US share market, with the S&P500 Index rising 7.0%. The US share market posted its strongest month this year and resumed its march to record highs following last month's -5% pull back. US Q3 reporting season proved robust with most companies beating earnings expectations. This was despite weaker than expected GDP growth and soft results from both Amazon and Apple due to ongoing supply chain disruptions and a tighter labour market.

Brent Oil prices rose US$6/bbl to US$84/bbl in October and has consistently remained above US$70/bbl. Gold prices also rose, lifting US$26 to US$1,769 against the headwinds of US Federal Reserve tightening expectations, higher yields, US Dollar strength, competition from other asset classes and persistent net selling from ETFs.

The Australian share market was on track for a gain but rolled over late in the month following a spike in Australian government bond yields as well as upward pressure on the Australian Dollar (up 4% against the US Dollar and Euro, and up 7% vs Japanese Yen). The spike in Australian government bond yields was notable in comparison to offshore equivalents. Over much of October, market expectations around central bank rate hikes increased substantially on the back of several hawkish surprises (Bank of Canada) as well as strong inflation data in Australia and New Zealand. On a sector basis, the IT (+2.1%) was the strongest performer despite higher bond yields, while Health Care (+1.0%), and Financials (+0.8%) also outperformed in Australia. The sectors which underperformed most were the Industrials (-3.2%), Energy (-2.7%) and Consumer Staples (-2.3%).




This graph shows how $100,000 invested at the Fund's Inception has increased to $247,400 (net of fees). This compares with the return of the benchmark, where a $100,000 investment would have increased to $159,500 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 |
|---|---|
| APIR Code | PVA0013AU |
| Minimum Investment | $20,000 |
| Issue price | $2.2025 |
| Withdrawal price | $2.1849 |
| Distribution (30/06/2021) | $0.0450 |
| 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

The fund's return was -1.4% in October, below the Small Ordinaries Accumulation Index of +0.9% and the benchmark of +0.6%. A strong mining sector weighted on relative performance this month as we don't invest in this space. The Small Resources was +6.5% while the Small Industrials was -0.6%. We also had several larger holdings which drifted lower on little news (see below).

Key positive contributors for the month were **Pinnacle Investment** (PNI +9.2%), **NRW** (NWH +16.6%) and **Uniti Group** (UWL +5.2%). Key detractors were **SG Fleet** (UWL -14.8%), **Alliance Aviation** (AQZ -12.2%) and **Mainfreight** (MFT -7.2%).

A number of our larger holdings have been bouncing around the last couple of months on little news. **Pinnacle Investment** rebounded after a weaker September and a market update highlighted continued strong growth momentum in asset flows. **NRW** and **Uniti Group** also rebounded after a weaker September with Uniti also helped by the announcement of a share buyback.

On the negative side **SG Fleet**, **Alliance Aviation**, **Mainfreight** and **News Corp** all declined after being positive in September. These include some larger holdings in the fund which dragged on October's investment returns. At the time of writing all 4 stocks are up in November.

**SG Fleet** provided an AGM update indicating its recent LeasePlan acquisition was performing strongly but supply constraints on new vehicles is causing lease extensions which delay the sale of older vehicles and the recognition of end-of-lease profits. This appears largely a timing issue.

**Alliance Aviation** (AQZ) was impacted by extended border closures and Qantas ordering a fleet of new aircraft which could impact long term demand for the wet lease of AQZ's aircraft. In November AQZ announced that Qantas exercised the option to utilise 5 of AQZ's aircraft and we understand demand outside Qantas is strong. While state border closures have delayed the utilisation of its recently acquired E190 fleet, we estimate the earnings run rate in 12 months could be double FY21. The valuation multiple also looks modest.

**Mainfreight** drifted lower after a strong August/September driven by index buying and an exceptional profit update. Given the strength of this update we will be focused on the sustainability of earnings at its half year result in November.

**News Corp** had a soft October on little news but reported its quarterly result in November which was particularly strong. All 5 operating segments reported revenue growth and strong profit growth. It is widely accepted the stock is cheap on a sum-of-the-parts and strong operating results help to bridge the gap to fundamental value. This is also supported by management flagging the activation of its share buyback.

| Top Contributors (Absolute) | Sector |
|---|---|
| Pinnacle Investment | Financials |
| NRW Holdings | Industrials |
| Uniti Group | Communication Services |
| **Top Detractors (Absolute)** | **Sector** |
| SG Fleet | Industrials |
| Alliance Aviation Services | Industrials |
| Mainfreight | Industrials |
| **Platforms** | |
| Netwealth, uXchange, Mason Stevens, Hub24 | |


**Mail:**
Prime Value Asset Management Ltd
Level 9, 34 Queen Street, Melbourne VIC 3000

**Contact details:**
Alyssa Hennessy, Riza Crisostomo, Julie Abbott, & Dora Grieve
Client Services Team
Phone: 03 9098 8088 Email: info@primevalue.com.au