

## Prime Value Asset Management Limited

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*“Building Wealth Together”*

**D**ear Investor,

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**Prime Value Growth Fund (PVGF)** has again achieved an excellent performance in both absolute and relative terms to the Australian market for the half-year ending 31 December 2001 and the calendar year 2001. Importantly, the Growth Fund, which comprises a portfolio of predominantly Australian equities, continues to achieve its medium term management objective of producing high capital growth with some income. We believe that the investment market for the year ahead will be very challenging, and that stock picking and value investing will be critical to our ongoing success. As the manager and significant investors of the Fund, we will continue to be diligent in exercising the entrusted stewardship.

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### FUND RETURNS +10.2% FOR HALF-YEAR & +22.7% FOR CALENDAR YEAR 01.

The return for the half-year to 31 December 2001 was +10.2% compared to the Australian market S&P/ASX 300 Accumulation Index of -0.2%. We are pleased with the results and the relative return of 10.4% is at the higher end of our medium term expectation.

The return for the last 12 months to 31 December 2001 was 22.7% compared to the S&P/ASX300 Accumulation Index of 10.5% (6.9% capital return and 3.6% dividend yield). Over the last 12 months, the best performing sectors are Healthcare (26%), Materials (25%) and Consumer Staples (23%) whereas the major under-performers were Information Technology (-52%) and Utilities (-18%).

The following table shows the Prime Value Growth Fund's (PVGGF) relative performance to the S&P/ASX300 Accumulation Index for the last quarter, the last half-year, 1 Year, 3 Years and since its inception (10 April 1998), to 31 December 2001. The first table shows the performance on an annual basis and the second table shows the cumulative return.

**Table 1: Annual Return**

<b>Return *</b>	<b>Last Quarter</b>	<b>Half-Year</b>	<b>1 Year</b>	<b>3 Years (p.a.)</b>	<b>Since Inception (p.a.)</b>
PVGGF	17.9%	10.2%	22.7%	19.9%	18.1%
S&P/ASX300 Accumulation Index	13.2%	-0.2%	10.5%	10.4%	9.1%
Relative to Benchmark	4.7%	10.4%	12.2%	9.5%	9.0%

**Table 2: Cumulative Return**

<b>Cumulative Return *</b>	<b>1 Year</b>	<b>3 Years</b>	<b>Since Inception</b>
PVGGF	22.7%	72.2%	86.6%
S&P/ASX300 Accumulation Index	10.5%	34.4%	38.5%
Relative to Benchmark	12.2%	37.8%	48.1%

*\* Gross Return before Management fees (1.1% including GST) and Performance fees. The Gross Return excludes the imputation Credits of around 1-2% per annum (grossed-up for tax purposes for residents only). The cumulative return assumes reinvesting of all income distributions. The Fund inception was on 10 April 98. The past performance is not necessarily indicative of future performance.*

## **SOLID INCOME DISTRIBUTION**

We are pleased to make another solid distribution for the half-year. The interim distribution is 6.1335 cents per unit and 0.74 cents per unit of Imputation Credits. Table 3 shows the details of income distribution by financial years since inception

**Table 3: Income Distributions by financial years**

<b>All figures are in cents/unit</b>	<b>Interim Distribution</b>	<b>Final Distribution</b>	<b>Total Distribution</b>	<b>Imputation Credits</b>
1998/99	2.44	6.60	9.04	1.37
1999/00	-	16.15	16.15	0.78
2000/01	7.00	8.56	15.56	2.34
2001/02	6.13	N/A		0.74

### PORTFOLIO CONSTRUCTION AND INVESTMENT STRATEGY

The Australian share market has been one of the better performing markets in the world during 2001. This result is partly due to the fact that our market did not get as overheated as the US market. Growth prospects for the Australian market, however, will be influenced by several factors:

- The health of the world economy.

US consumer confidence has rebounded recently - a typical signal of economic recovery. Other nations, with the possible exception of Japan, are likely to follow the US out of recession. This augurs well for equity prices; however, any rally may be limited by high P/E ratios.

- Following the abandonment of Keynesian economics in the early 1980's in favour of a more laissez faire type of economic system, the global capital markets have seen a significant repricing for disinflation. This re-pricing is now largely complete, and in the near future share market gains are likely to be limited to the elimination of the under valuation that accompanies current economic uncertainty. In the longer term, the rate of earnings growth should influence the rate of share market price appreciation. We are expecting a decent rally, not a raging bull market.
- Our weak currency will ensure that Australian companies will remain to be an attractive target for predatory foreign corporations this year .In addition, changes in US Accounting Standards (no amortisation charges for goodwill and intangibles) may well result in an increase in M&A activity by US corporations as they take advantage of acquisitions no longer being negatively impacted by large amortisation charges to NPAT and EPS.

Our Portfolio, which consists mainly – but not entirely- of medium and smaller capitalisation stocks, continued to be conservatively structured, albeit with some cyclical bias. Some of the stocks in the portfolio, which have outperformed the market, include Amcor (a cyclical stock, consolidation of global packaging market); WMC (resource stock, corporate activity); Gunns (mid-cap hardwood supplier, very solid fundamentals), and Symex (a small company floated off ICI). However, as at the end of December, the energy stocks (Novus, Origin) have not yet performed as well as expected.

For 2002, we will be continuing our focus on the medium and smaller market capitalization stocks, as they are likely to outperform the large cap stocks. Identifying and backing turnaround situations could again become a key focus area in 2002, suggesting the importance of value investing and stock picking in determining out-performers.

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### **NEW PRODUCT - PRIME VALUE IMPUTATION FUND**

A new product, the **Prime Value Imputation Fund (PVIF)** was launched in late December 2001. The primary objective of this Fund is to provide regular tax effective income and some capital growth over the medium term from a portfolio comprised mainly of Australian equities and fixed interest investments. The Fund is suitable for investors who prefer to receive regular income distribution and tolerate lower risk / volatility in the underlying capital investment.

The management team of PVAM would like to take this opportunity to reiterate our commitment to remain significant investors in the Funds managed by PVAM. This is a significant part of our own wealth creation strategy and means that we share common objectives with our investors. To reflect this commitment, PVAM have introduced the mission statement "**Building Wealth Together**".

We wish everyone good health and have a great Year in 2002.

Yours sincerely

**Han K Lee**  
**Managing Director**

**Y Yong Quek**  
**Executive Director**