

# Prime Value Emerging Opportunities Fund Update – December 2017



- Share markets ended 2017 on an optimistic note, supported by continuing economic growth in major economies and low interest rates
- The positive global backdrop should continue in 2018. However, we expect a more volatile period that would lead to stock picking opportunities
- The Fund posted another strong month, up 3.9% in December, capping off an excellent six month for FY18

	Total Return*	Benchmark (8% pa)	Value Add
Since Inception (p.a.)	<b>14.1%</b>	8.0%	6.1%
2 Years (p.a.)	<b>10.6%</b>	8.0%	2.6%
1 Year	<b>14.9%</b>	8.0%	6.9%
3 Months	<b>8.3%</b>	2.0%	6.3%
1 Month	<b>3.9%</b>	0.7%	3.2%

\* 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.

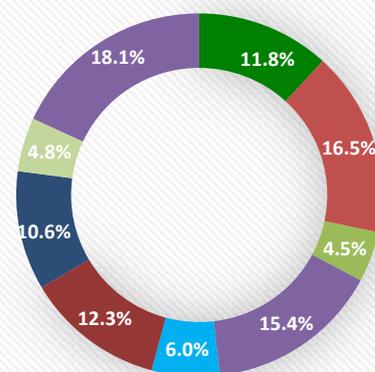
The Prime Value Emerging Opportunities Fund is a concentrated portfolio of companies with a market capitalisation of less than \$500 million at the time of first purchase by the Fund. The Fund may hold up to 30% in previously held companies which have grown their market cap above \$500m. Investors should be aware there may be greater price volatility with an investment in the small and micro-cap sector, than with larger companies.

Top five holdings	Sector
Appen Limited	Information Technology
Experience Co Limited	Consumer Discretionary
Lifestyle Communities	Real Estate
Service Stream Limited	Industrials
Melbourne IT Limited	Information Technology

\* The top five holdings make up approximately 25.4% 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% p.a.
Inception date	8 October 2015
Typical number of stocks	25-50
Cash	0 - 20%
Unlisted Exposure	0 – 20%
International Exposure	0 – 10%
Distribution	Half-yearly
Recommended investment period	3 + years

## Holdings by Sectors

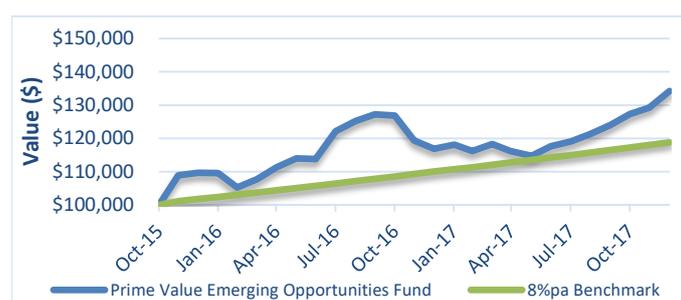


- Financials 11.8%
- Consumer Discretionary 16.5%
- Consumer Staples 4.5%
- Industrials 15.4%
- Health Care 6.0%
- Information Technology 12.3%
- Materials 10.6%
- Real Estate 4.8%
- Cash 18.1%

## Market review

The Australian share market finished the year strongly, up 1.9% in December for a calendar year return of 11.9%. 2017 was the second consecutive year of double-digit returns for our market (including dividends). Strong gains were produced across a range of sectors, although in broader terms resources significantly outperformed industrials. US equities continued to rally in December, supported by approval of the Tax Bill, which provided a positive lead for global equities. Commodity price momentum was maintained, driven by positive global economic data (including China). The Australian dollar rose 3.2% to AUD 0.7890. Oil prices continued to strengthen (+5.3%), with WTI crude oil trading above US\$60 for the first time since June 2015.

The resource-related sectors continued to outperform in December. The energy sector rose 6.5%, while materials closed 6.1% higher. These two sectors are now up +26.6% and +20.6% respectively financial-year-to-date. The telco sector recovered some of its underperformance (+5.5%), while utilities (-4.5%), industrials (-0.9%) and health care (-0.5%) underperformed. Small caps also continued to outperform (also led by resources), returning +3.2% versus +2.7% for mid-caps and +1.5% for large-caps.



This graph shows how \$100,000 invested at the Fund's Inception has increased to \$134,270 (net of fees). This compares very favourably with the return of the benchmark, where a \$100,000 investment would have increased to \$118,750 over the same period. The returns exclude the

	Direct Investment
APIR Code	PVA0013AU
Minimum Investment	\$20,000
Issue price	\$ 1.3375
Withdrawal price	\$ 1.3269
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 returned 3.9% in December and has returned 15.2% this financial year. Capping off a strong six months were key positive contributors to performance in December **Appen**, Lifestyle Communities and NRW Holdings all of which rose significantly in excess of 10% during the month. Melbourne IT, Service Stream and Capitol Health were the key detractors during the month. Fund performance was particularly pleasing as the contributors were broad-based, reflecting our core strengths in stock picking. There 23 positive contributors to fund performance against 8 negative contributors.

Melbourne IT encountered some profit taking during the month. The company is experiencing good growth in its Enterprise Solution division, which is more than offsetting the decline of Melbourne IT's legacy domain name business. Enterprise Solutions serves large corporations and government agencies in digital, cloud and mobile application needs. We have been impressed with Melbourne IT's improving penetration into this sector which should underpin further prospects. We continue as shareholders.

Service Stream experienced some profit taking as well despite reaffirming its profit guidance that was issued last year. There was concern that the delayed roll-out of the NBN HFC cables would slow the level of connections which Service Stream activates. Service Stream is one of the key contractors undertaking activation work for NBN connections. It should be noted that there is a distinction between the roll-out of the NBN—which is a huge fibre network infrastructure undertaking to link users—and activating your NBN connection. Service Stream is contracted to undertake the latter, which from our observations, continue at a good pace.

Our research pipeline remains active, with plans to improve the breadth and depth of our research coverage. We expect to research and visit many more companies than the Fund will ever invest in.

Top Contributors (Absolute)	Sector
Appen	IT
Lifestyle Communities	Real Estate
NRW Holdings	Industrials
Top Detractors (Absolute)	Sector
Melbourne IT	IT
Service Stream	Industrials
Capitol Health	Health Care

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