

Prime Value Emerging Opportunities Fund Update – February 2017



- Equity market performance was solid in February, helped by a benign domestic reporting season
- Company fundamentals returned to investors focus, after months of elevated offshore macro developments. We observe that broad-based market valuations have also risen which warrant some caution in the short term
- Short term reactions to smaller companies profit releases have been difficult to determine directionally and in some cases at odds to company fundamentals

	Total Return*	Benchmark (8% pa)	Value Add
Since inception (p.a.)	11.3%	7.9%	3.4%
1 Year	10.4%	8.0%	2.4%
3 Months	(2.6%)	2.0%	(4.6%)
1 Month	(1.6%)	0.6%	(2.2%)

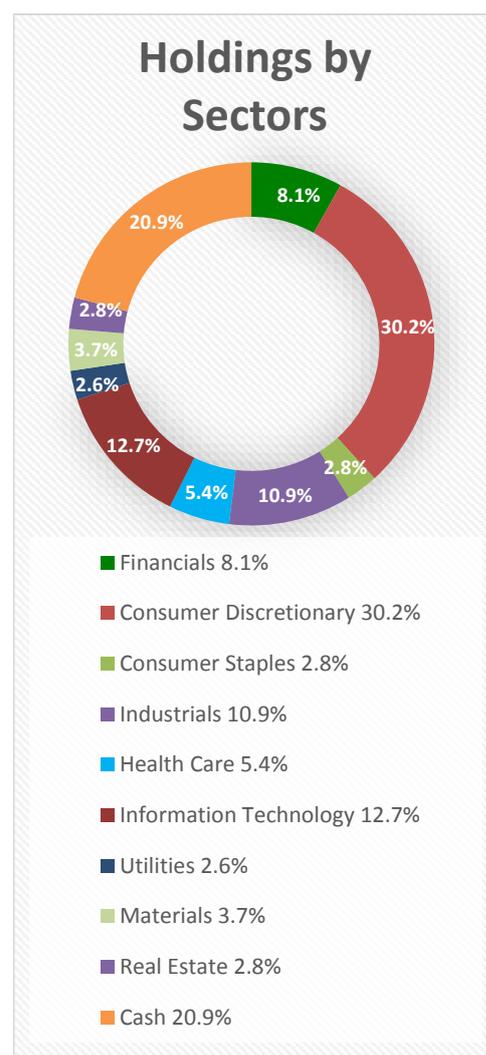
* Fund returns are calculated net of management fees and performance fees assuming all distributions are re-invested. Performance figures have been calculated in accordance with the Financial Services Council (FSC). The returns exclude the benefits of imputation credits. Past performance is not necessarily 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
Nick Scali	Consumer Discretionary
Appen	Information Technology
Beacon Lighting	Consumer Discretionary
GR Engineering	Materials
Service Stream Limited	Consumer Discretionary

* The top five holdings make up approximately 22.1% of the portfolio

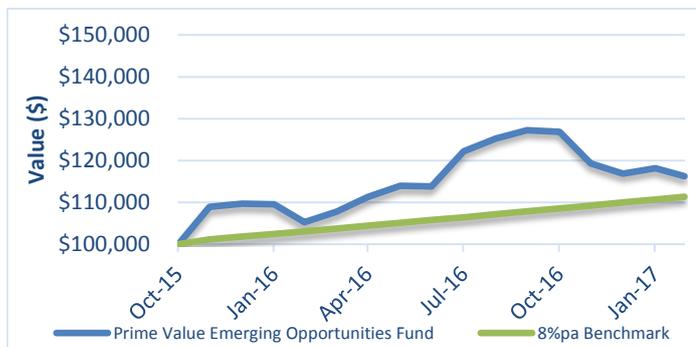
Feature	Fund facts
Portfolio Manager	ST Wong
Investment objective	To achieve superior absolute total returns by providing medium to long term capital growth without the constraints of a share market benchmark.
Benchmark	8% pa
Inception date	8 October 2015
Typical number of stocks	25-50
Cash	0 - 20%
Unlisted Exposure	0 – 20%
International Exposure	0 – 10%
Distribution	Half-yearly
Recommended investment period	3 + years
Annualised Return	11.3%



Market review

The Australian share market rose 2.2% in February reflecting the strong performance of equity markets globally and a benign domestic reporting season. The S&P500 delivered the biggest monthly gain (+4%), with emerging markets (+1.7%) and the Nikkei (+0.5%) underperforming. While equity markets rallied, the so-called Trump reflation trade took a pause with the more defensive and interest-rate sensitive sectors outperforming and bonds yields generally lower. Cyclical sectors underperformed, along with telcos. Mining was the worst performing sub-sector despite higher commodity prices, including iron ore which rose 10.2% to US\$92 a tonne. A pause in the mining sector was warranted after a strong performance in 2016. Australian large-caps stocks (+2.4%) once again outperformed mid-caps (+1.5%) and small-caps (+1.3%). Notably, the Australian reporting season was reasonably benign with company profits generally within expectations although we note an extremely high number of profit downgrades in the preceding three months.

Australian economic data was mixed: retail sales fell in January and are now a modest +3% year-on-year. On a more positive note the unemployment rate came-in lower than expected at 5.7%.



This graph shows how \$100,000 invested at the Fund's Inception has increased to \$116,230 (net of fees). This compares very favourably with the return of the benchmark, where a \$100,000 investment would have increased to \$111,330 over the same period. The returns exclude the

	Direct Investment
APIR Code	PVA0013AU
Minimum Investment	\$20,000
Issue price	\$ 1.1669
Withdrawal price	\$ 1.1577
Indirect Cost Ratio (ICR)	1.25%*
Performance fee	20%** p.a.
<small>* Unless otherwise stated, all fees quoted are inclusive of GST and the relevant RITC ** of performance (net of management fees) above the agreed benchmark, subject to positive performance</small>	

Mail:

Prime Value Asset Management Ltd
 Level 9, 34 Queen Street
 Melbourne VIC 3000
 Web: www.primevalue.com.au

Fund review & strategy

Fund fell 1.6% in February but is up 10.4% over the past year. **Nick Scali**, **Motorcycle Holdings** and **Class Limited** were key contributors to the February performance. Declines in **Xenith IP**, **Pinnacle Investments** and **Veris Limited** detracted from performance during the month. February is typically an important but volatile period for companies we own. It's a period where knee jerk reactions both on the upside and downside are common as investors react to new information. We will generally look beyond short term issues when assessing the prospects of our investments.

Nick Scali, a major furniture retailer whose target market is the 35 to 55 year old age bracket seeking contemporary furnishing, continued to demonstrate very good execution of its business plans. A strong residential market has been assisting sales growth. However, **Nick Scali's** ability to post good growth even in lack lustre residential markets such as Queensland and a consistently rising profit margin indicates good product positioning and management. The outlook for the company is compelling as plans for future store roll-outs (some in former Masters sites) will increase market penetration. On the other hand, **Veris Limited** (a national surveying and construction business) reported a disappointing result. The company's surveying business performed below expectations as integration and wage costs were higher than planned. The fundamentals of the surveying business remain intact and there is strong demand expected from momentum in east coast infrastructure markets that will underpin the companies prospects. We further expect **Veris** to take opportunities to enlarge its market share through acquisition in the fragmented surveying services sector.

We have been selectively adding to some of our current positions such as **Apollo Tourism & Leisure** and **National Veterinary Care** as we grow in confidence in management's ability to execute their strategy. We have reduced holdings in **Motorcycle Holdings** as part of managing the portfolio risks and weightings.

Top contributors (absolute)	Sector
Nick Scali	Consumer Discretionary
Motorcycle Holdings	Consumer Discretionary
Class Limited	IT
Top detractors (absolute)	Sector
Xenith IP Group	Industrials
Pinnacle Investments	Financials
Veris Limited	Industrials

Contact details:

Phone: 03 9098 8088
 Fax: 03 9098 8099
 Email: info@primevalue.com.au

The information contained in this Fund Update is general in nature and has no regard to the specific investment objectives, financial or particular needs of any specific recipient. It is not intended to constitute investment advice or a personal securities recommendation. This document is not a Product Disclosure Statement (PDS) or an offer of units, and contains a brief overview of the investment only. Any prospective investor wishing to make an investment in the Prime Value Emerging Opportunities Fund must obtain and read the PDS dated 23 October 2015 (particularly the risk factors discussed) and complete an application form. Neither Prime Value Asset Management Limited nor its associates or directors, nor any other person, guarantees the success of the Prime Value Emerging Opportunities Fund, the repayment of capital or any particular rate of capital or income return, or makes any representation in relation to the personal taxation consequences of any investor's investment.