

# Prime Value Emerging Opportunities Fund Update – January 2017



- Political headlines moved markets, starting the month on optimistic promises and ending flat on hard realities
- The Fund rose 1.0% in January. Positive contributors to performance were Nick Scali, Pinnacle Investments and GR Engineering. Detracting from performance were holdings in Lifestyle Communities, Netcomm Wireless and Sky Dive the Beach
- Smaller companies profit downgrades continued into January. Positively, the Fund has had just one holding downgrade earnings in the past several months, which is an excellent outcome

	Total Return*	Benchmark (8% pa)	Value Add
Since inception (p.a.)	13.4%	8.0%	5.4%
1 Year	7.8%	8.0%	(0.2%)
3 Months	(6.9%)	2.0%	(8.9%)
1 Month	1.1%	0.7%	0.4%

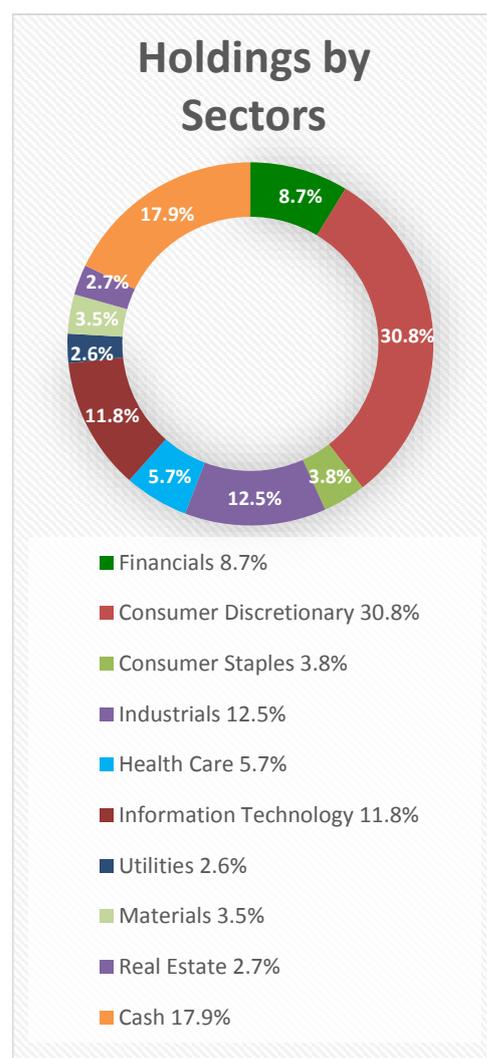
\* Fund returns are calculated net of management fees and performance fees assuming all distributions are re-invested. Performance figures have been calculated in accordance with the Financial Services Council (FSC). The returns exclude the benefits of imputation credits. Past performance is not necessarily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

\* The top five holdings make up approximately 21.3% 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	13.4%



## Market review

The Australian share market declined -0.8% in January, underperforming global equity indices in local currency terms despite the ongoing rally in mining stocks and commodity prices. Domestically, the broader materials sector (+4.8%) and healthcare sectors (+4.6%) produced the strongest gains; however, most other sectors posted modest or negative returns including the banks. REITs (-4.7%) and industrials (-4.4%) were the major laggards. Mid-caps (0.1%) outperformed mega-caps (-0.6%), large-caps (-0.7) and small-caps (-2.4%), which have significantly underperformed over the financial year-to-date. Donald Trump continued to dominate world headlines: reiterating his pro-growth/reflationary policy agenda, imposing immigration restrictions, withdrawing from the Trans Pacific Partnership. Most commodities and base metals rose over the month, including iron ore which closed up 4.4% to US\$83.50 a tonne and gold (up 5.8% to US\$1,212.80). However, coal continued its recent falls, while oil was down 2% to US\$55.70 a barrel (Brent). The Australian dollar rallied against most currencies to close up 4.8% to 0.7590 US cents. Australian economic data was mixed: residential building approvals (November) rebounded more strongly than expected to an annualised rate of 211k



This graph shows how \$100,000 invested at the Fund's Inception has increased to \$118,110 (net of fees). This compares very favourably with the return of the benchmark, where a \$100,000 investment would have increased to \$110,670 over the same period. The returns exclude the benefits of imputation credits.

	Direct Investment
APIR Code	PVA0013AU
Minimum Investment	\$20,000
Issue price	\$ 1.1858
Withdrawal price	\$ 1.1764
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>	

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## Fund review & strategy

The Fund gained 1.0% in December and is up 16.1% since inception (annualised since October 2015, after management fees but before performance fees). **Nick Scali**, **Pinnacle Investment** and **GR Engineering** performed well and were key contributors to the January performance. Declines in **Lifestyle Communities**, **Netcomm Wireless** and **Sky Dive the Beach** detracted from performance during the month.

**Pinnacle** is a holding company providing distribution and support services to affiliated asset management firms. In aggregate these firms have A\$23.3bn in assets under management. **Pinnacle** raised \$30m in new capital in January with the intention of bidding for Hunter Hall, a global equities manager with \$1.0bn in Funds under Management. We believe the acquisition would be positive for **Pinnacle** if the company is successful in acquiring Hunter Hall. The pricing appears favourable and in the asset management industry, gaining scale adds leverage to the business. When we made our first investment in **Pinnacle** it was for its underlying business model. **Pinnacle** has attractive products that are appealing to the market and a number of these products are still at their infancy which means the scope for growth is potentially large. The ability to realise this potential will hinge on continuation of good fund performance and the capability of the distribution network. **Pinnacle's** track record has been good in these aspects.

The Fund held 31 positions at the end of the month, representing a concentrated but diverse collection of investments having little correlation to major share market benchmarks. Our immediate focus will be on the February company profit reporting period. However, we continue to focus on a three year horizon when assessing our investee companies and in new ideas. The longer term timeframe firmly places our focus on the company's ability to compound earnings growth and create shareholder value. We are confident that our approach will underpin Fund outperformance.

Top contributors (absolute)	Sector
Service Stream	Industrials
Lifestyle Communities	Real Estate
Appen Limited	IT
Top detractors (absolute)	Sector
GTN	Consumer Discretionary
Catapult	IT
PSC Insurance	Financials

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