

# Prime Value Emerging Opportunities Fund Update – July 2017



- The Australian share market was flat for the month, with the strong Australian Dollar an influence on share prices
- Resource companies performed well in July, as commodity prices rallied. The sector was also used as a proxy for weakness in the US Dollar
- The Fund had a good month rising 1.3% in July, with gains in Pinnacle Investments, Australian Finance Group and National Veterinary Care offsetting weaker performances of companies with larger exposures to the US Dollar.

	Total Return*	Benchmark (8% pa)	Value Add
Since inception (p.a.)	10.1%	8.0%	2.1%
1 Year	(2.5%)	8.0%	(10.5%)
3 Months	2.5%	2.0%	0.5%
1 Month	1.3%	0.7%	0.6%

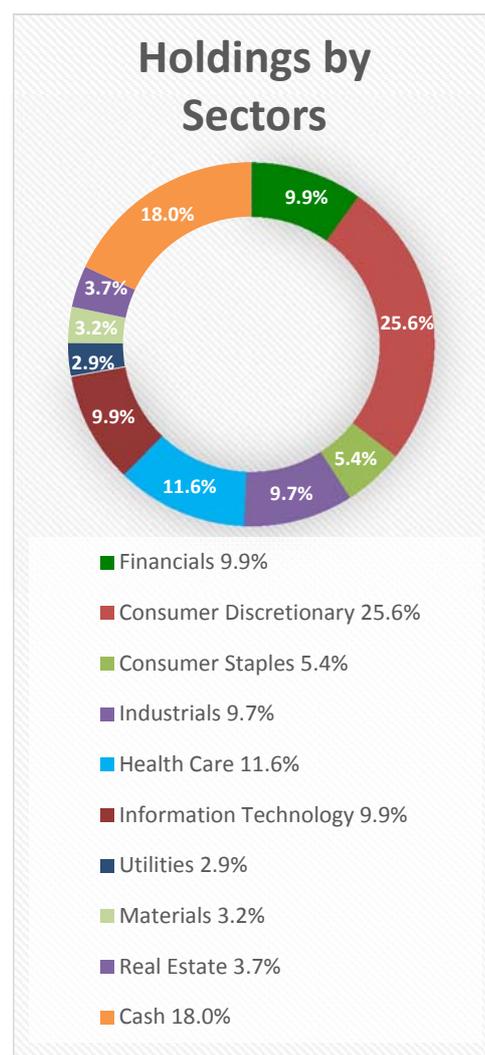
\* Fund returns are calculated net of management fees and performance fees assuming all distributions are re-invested. Performance figures have been calculated in accordance with the Financial Services Council (FSC). The returns exclude the benefits of imputation credits. Past performance is not necessarily 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
Appen Limited	Information Technology
Service Stream	Industrials
Pinnacle Investments	Financial
National Veterinary	Health Care
Skydive the Beach Group	Consumer Discretionary

\* The top five holdings make up approximately 22.8% of the portfolio

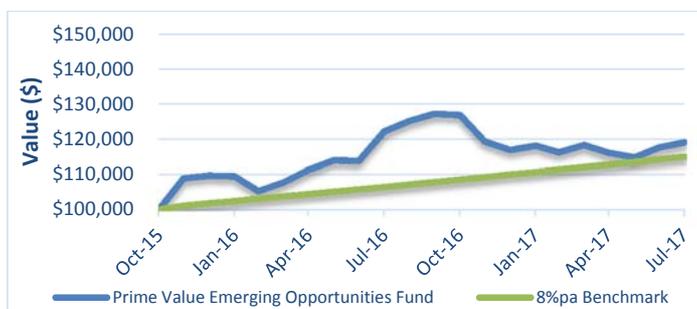
Feature	Fund facts
Portfolio Manager	ST Wong
Investment objective	To achieve superior absolute total returns by providing medium to long term capital growth without the constraints of a share market benchmark.
Benchmark	8% pa
Inception date	8 October 2015
Typical number of stocks	25-50
Cash	0 - 20%
Unlisted Exposure	0 – 20%
International Exposure	0 – 10%
Distribution	Half-yearly
Recommended investment period	3 + years
Annualised Return	10.1%



## Market review

The Australian share market was flat in July, despite strong performance from both the mining and banking sectors. By contrast, global equities performed strongly off the back of 'dovish' commentary from the US Fed. The sharp rise in the Australian dollar (+3.1 cents to US\$0.7980) drove the underperformance of our market in local currency terms. This AUD strength (a product of US dollar weakness, strong commodity prices & strengthening Chinese economic data) impacted the performance of industrial stocks with large offshore earnings, most notably within the Health Care sector (-7.5%). Reference to neutral cash rates (at circa 3.5%) within the RBA's July minutes also excited the Australian dollar bulls. Mega caps significantly outperformed mid-caps (-1.6%), while small-caps (+0.3%) and large-caps (+0.2%) also underperformed.

The release of APRA's much anticipated capital requirements drove the strong performance of the banking sector (+2.3%). The requirement for at least 10.5% of common equity tier 1 capital was considered less onerous than initially feared and removed a major source of uncertainty. Australian economic data was generally strong (retail sales, employment, business conditions survey). However, headline CPI was weaker than expected at 1.9% year-on-year, as were building approvals.



This graph shows how \$100,000 invested at the Fund's Inception has increased to \$119,090 (net of fees). This compares very favourably with the return of the benchmark, where a \$100,000 investment would have increased to \$114,980 over the same period. The returns exclude the benefits of imputation credits.

	Direct Investment
APIR Code	PVA0013AU
Minimum Investment	\$20,000
Issue price	\$ 1.1863
Withdrawal price	\$ 1.1769
Distribution (30/06/2016)	\$0.0092
Indirect Cost Ratio (ICR)	1.25%*
Performance fee	20%** p.a.

\* 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

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## Fund review & strategy

The Fund rose 1.3% in July, a period that was relatively light in terms of company specific news flow. Since inception (October 2015), the Fund has returned 11.9% p.a. Major contributors to Fund performance in July were **Pinnacle Investments, Australian Finance Group** and **National Veterinary Care**. Detracting from Fund performance were holdings in **BWX Limited, Sky Dive the Beach (SKB)** and **Apollo Tourism and Leisure (Apollo)**.

The recent Australian Dollar strength had been unexpected and had been a directional driver of short term share price performance. For context: a common view at the start of 2017 was for the Australian Dollar to be closer to 0.6500 to the USD rather than the 0.7980 where it is now.

Although the currency more effect on larger capitalisation companies, smaller companies with large off shore exposures were also sold down. This included several of the Fund's holdings such as **SKB** and **Apollo**. Both **SKB** and **Apollo** have large exposures to the Australian tourism market; however, drivers of value creation for both these companies are different.

**Apollo** provides recreation vehicle (RV) rentals across New Zealand, Australia, Canada and the USA. 70% of Apollo's earnings comes from Australia and New Zealand with the balance from the USA and Canada. **Apollo** is benefitting from rising demand for its RVs, particularly from European tourists visiting Australian and New Zealand. We expect European demand to continue but expect further growth to come from other regions. While the inbound tourism theme is robust, our specific investment thesis is for **Apollo's** ability to grow in the US and Canada, both very substantial markets.

**SKB** primarily offers tandem sky diving in a number of locations across Australia's eastern seaboard. Management have been driving a diversification program both geographically and by types of activities such as white water rafting. We expect SKB's diversification to result in both short and long term ability to grow the company's revenues and earnings.

Top contributors (absolute)	Sector
Pinnacle Investments	Financials
Australian Finance Group	Financials
National Veterinary Care	Health Care
Top detractors (absolute)	Sector
BWX Ltd	Consumer Staples
Sky Dive the Beach	Consumer Discretionary
Apollo Tourism & Leisure	Consumer Discretionary

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