

Prime Value Emerging Opportunities Fund Update – June 2016



- The Prime Value Emerging Opportunities Fund invests in companies in the diversified emerging companies sector
- The Fund fell marginally, by 0.4%, in June, but has returned 16.5% since inception (Oct 2015)
- Positive contributors to performance included Appen (+12.6%), Sky Dive the Beach (+10.9%) and Nick Scali (+10.7%)

	Total Return*	Benchmark (8% pa)	S&P/ASX Emerging Companies Accum Index
Since inception	13.8%	5.8%	15.3%
6 Months	3.7%	4.0%	6.9%
3 Months	5.6%	2.0%	5.9%
1 Month	-0.2%	0.6%	-1.3%

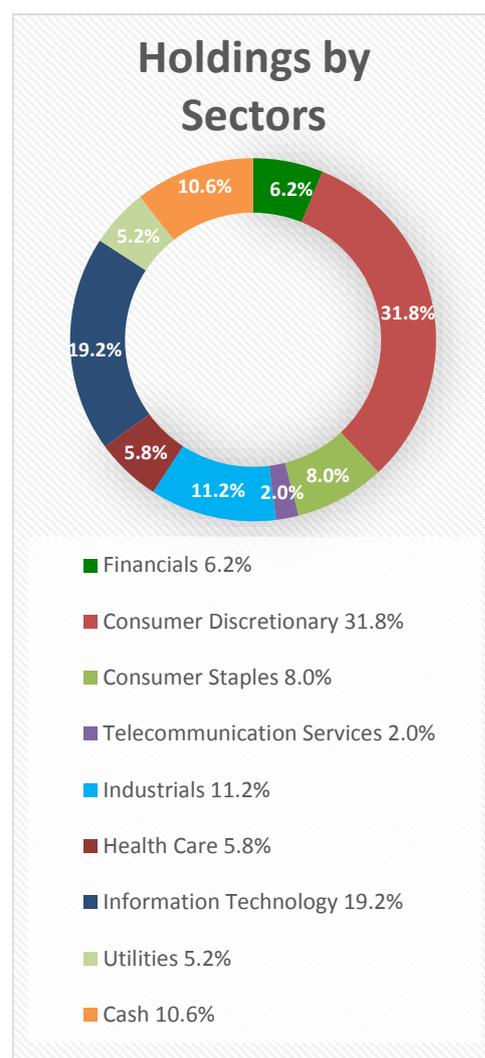
* Fund returns are calculated net of management fees and performance fees, assuming all distributions are re-invested. Performance figures have been calculated in accordance with the Financial Services Council (FSC). The returns exclude the benefits of imputation credits. Past performance is not necessarily 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
Infigen Energy	Utilities
PWR Holdings	Consumer Discretionary
Catapult Group	Information Technology
Nick Scali Limited	Consumer Discretionary

* The top five holdings make up approximately 19.7% 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 – 10%
International Exposure	0 – 20%
Distribution	Half-yearly
Recommended investment period	3 + years



Market review

The Australian share market declined 2.4% in June to finish FY16 up 0.9% (including dividends). Political uncertainties (both global and local) added to what has been a volatile year for equities. The surprise UK referendum result triggered a sharp spike in volatility across asset classes, with financial markets having expected the “Remain” vote to prevail. The UK FTSE 100 index initially fell 9% but has now recovered most of those losses, while the British pound hit a 30 year low. European financials performed poorly, while gold and REITs were bought up. European indices were also hit hard but rebounded in the last few days of the month.

Interest-rate sensitive yield sectors were the best performing local sectors in June, with Utilities up 5.6% and REITs up 3.5%. The major banks fell 5%, in-line with global market movements. IT was the worst performing sector (-7.6%). Small-caps (-1.3%) outperformed mid-caps (-2.1%), large-caps (-2.6%) and mega-caps (-3.6%).

This high volatility investment environment however is offering opportunities in companies we view as having strong management who can deliver shareholder value regardless of the macro trends or market conditions.

	Direct Investment	Platform Investment
APIR Code	PVA0013AU	TBC
Minimum Investment	\$20,000	N/A
Issue price	\$1.1423	\$1.1423
Withdrawal price	\$1.1331	\$1.1331
Indirect Cost Ratio (ICR)	1.25%	1.25%
Performance fee	20% ¹ pa	20% ¹ pa

¹ of performance (net of management fees and administration costs) above the agreed benchmark, subject to positive performance

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Fund review & strategy

The Fund fell 0.4% in June with volatile share markets affecting the short term share price performance of a number of stocks. When markets are driven by emotion, irrational behaviour can become the norm, often introducing short term mis-pricing of stocks. We used this opportunity to add to several of our holdings.

Top contributors to fund performance were positions in Appen (+12.6%), Sky Dive the Beach (+10.9%) and Nick Skali (+10.7%). Negative contributors included Collins Foods (-14.7%), Netcomm Wireless (-13.1%) and AMA Group (-12.5%).

We wrote about our investment in Appen last month. Whilst Appen has continued to perform well in June, there was no observable new information that drove the share price. The company will report its 1H16 results in August—this will give us the opportunity to reassess Appen’s operational progress and obtain an indication of management’s plans to drive the company forward.

Sky Dive the Beach announced the acquisition of Sky Dive Wanaka in New Zealand for NZ\$10.4m. The company funded the acquisition via an institutional placement. We participated in the placement as we viewed the acquisition positively. Sky Dive Wanaka was acquired for a good price and is highly complementary to Sky Dive the Beach’s business.

Collins Foods reported a solid FY16 result, with net profit growing by 22% driven by good growth in the KFC franchise. The start to FY17 has been slow, perhaps slower than most expectations resulting in the shares being sold off. Given that it’s still early in the financial year, sales should improve through the year as Collins Foods increases its store footprint. Nevertheless, we will be monitoring the progress in event the slower-than-expected sales growth become a wider concern.

Top contributors (absolute)	Sector
Appen Limited	Information Technology
Sky Dive the Beach	Consumer Discretionary
Nick Scali	Consumer Discretionary

Top detractors (absolute)	Sector
Collins Foods	Consumer Staples
Netcomm Wireless	Information Technology
AMA Group	Consumer Discretionary

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