

Prime Value Emerging Opportunities Fund Update – June 2017



- Global share markets put in a mixed performance in June but were generally positive
- The debate surrounding Amazon's Australian entry, a key factor for retailers' poor performance in the previous month, eased. This lifted some pressure on the consumer discretionary sector in June
- The Fund posted a 2.5% return in June. Capitol Health was a significant contributor to performance as the company sold an underperforming division and there were signs of an improving performance in its core radiology business

	Total Return*	Benchmark (8% pa)	Value Add
Since inception (p.a.)	9.8%	8.0%	1.8%
1 Year	3.4%	8.0%	(4.6%)
3 Months	(0.6%)	2.0%	(2.4%)
1 Month	2.5%	0.6%	1.9%

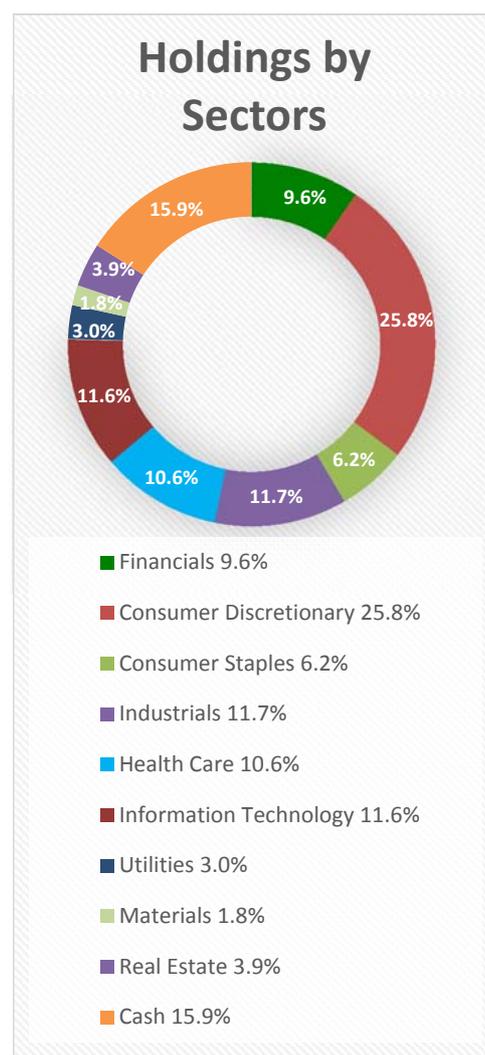
* Fund returns are calculated net of management fees and performance fees assuming all distributions are re-invested. Performance figures have been calculated in accordance with the Financial Services Council (FSC). The returns exclude the benefits of imputation credits. Past performance is not necessarily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

* The top five holdings make up approximately 23.5% 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	9.8%



Market review

The Australian share market rose 0.2% in June to close FY17 up 13.8% including dividends. Developed market equities also posted a small 0.1% monthly gain, despite indications of potential stimulus withdrawal from European central banks. The major US indices all hit record highs during June, which offset declines from European markets (-3%) and the UK (-2.5%). Emerging markets outperformed (+1.7%).

Domestic economic data was generally stronger than expected in June. The unemployment rate fell to 5.5%; business sentiment remaining strong; and month-on-month retail sales (April) stronger than expected at 1%. Real GDP for Q1 rose 0.3% and 1.7% year-on-year. The Australian dollar rose 3% to US\$0.77 driven by higher commodity prices and yield expectations. Iron ore recovered strongly from its mid-month lows to close 9.5% higher at US\$63.50/t.

The strongest sector returns globally came from Financials. Our banks also posted gains (+1.5%). The Health Care sector was the strongest performer domestically, posting a return of +6.1%. Energy was the worst performing sector both globally and domestically (-6.8%), with the Brent oil price falling 4.8% to US\$47.92/bbl. Small caps (+2%) and mid-caps outperformed (+1.7%) in June, with large-caps underperforming (-0.2%).



This graph shows how \$100,000 invested at the Fund's Inception has increased to \$117,610 (net of fees). This compares very favourably with the return of the benchmark, where a \$100,000 investment would have increased to \$114,230 over the same period. The returns exclude the benefits of imputation credits.

	Direct Investment
APIR Code	PVA0013AU
Minimum Investment	\$20,000
Issue price	\$ 1.1808
Withdrawal price	\$ 1.1714
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 2.5% in June, recovering strongly from a weak May, to end the 2017 financial year with a 3.4% return. Since inception (October 2015), the Fund has returned 9.8% p.a. Major contributors to Fund performance in June were **Capitol Health**, **Pinnacle Investments** and **BWX Limited**. Detracting from Fund performance were holdings in **Infigen Energy**, **Nick Scali** and **GR Engineering**.

Capitol Health, whilst a recent position added to the Fund, made a significant contribution to Fund performance during June and is a company we have followed for a number of years. We invested in **Capitol Health** several years ago as the company was operating in a segment of the health care sector experiencing rising demand for radiology services. We felt the company's business model was ideal for the sector, which consequently saw the company gain market share. Unfortunately, the company expanded too quickly and ran into issues and we exited our holding well before the company's share price suffered a long spiral down. More recently, **Capitol Health** has refocused its priorities and has shed underperforming divisions, scaled back its ambitions and reverted to its core radiology expertise. A recent company update points towards a recovery of revenue growth and much improved controls on costs. We expect **Capitol Health** to hold net cash on its balance sheet by FY18.

We continue to favour and look for opportunities in areas where we believe exist long runways of secular growth. Thus, our larger weightings to the Information Technology and Health Care sectors. As in all Prime Value Funds, you will never find us investing in stocks or sectors just because of a particular big-picture theme. Our process is bottom-up focussed and we look to the management teams of our investee companies to make the correct resource allocation decision to grow the company and to create shareholder value. No theme or big picture idea can replace that.

Our top 10 holdings at end June 2017 represented 41% of the portfolio.

Top contributors (absolute)	Sector
Capitol Health	Health Care
Pinnacle Investment	Financials
BWX Limited	Consumer Staples
Top detractors (absolute)	Sector
Infigen Energy	Utilities
Nick Scali	Consumer Discretionary
GR Engineering	Materials

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