

# Prime Value Emerging Opportunities Fund Update – March 2017



- Large capitalisation companies led the Australian market higher in March, ending the quarter on a positive note
- Merger and acquisition activity was notably higher than normal during the March quarter with IPO activity subdued
- The Fund rose 1.8% for the month. Company fundamentals dictated the share price performances of many of our holdings, in contrast to the preceding month where short term considerations and sentiment affect share price performance

	Total Return*	Benchmark (8% pa)	Value Add
Since inception (p.a.)	12.0%	8.0%	4.0%
1 Year	9.8%	8.0%	1.8%
3 Months	1.2%	2.0%	(0.8%)
1 Month	1.8%	0.7%	1.1%

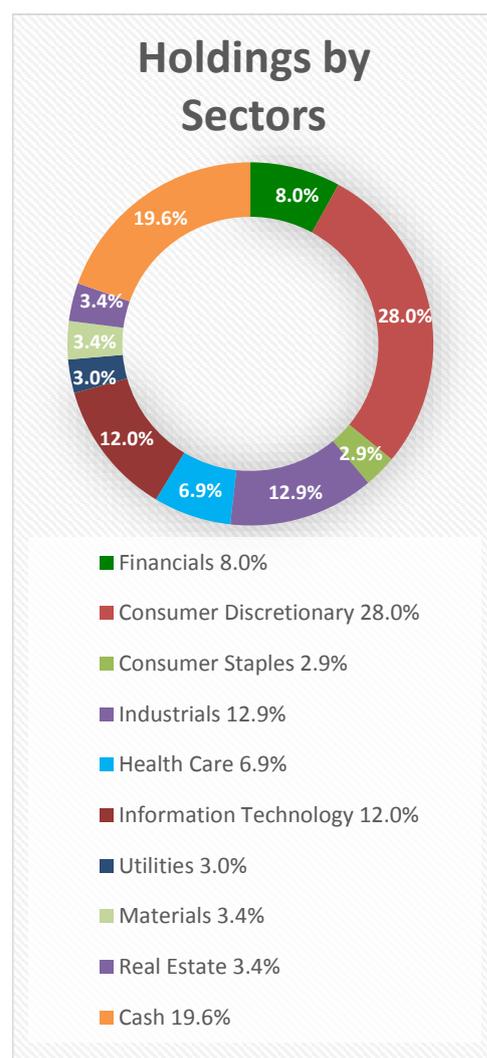
\* Fund returns are calculated net of management fees and performance fees assuming all distributions are re-invested. Performance figures have been calculated in accordance with the Financial Services Council (FSC). The returns exclude the benefits of imputation credits. Past performance is not necessarily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

\* The top five holdings make up approximately 20.8% of the portfolio

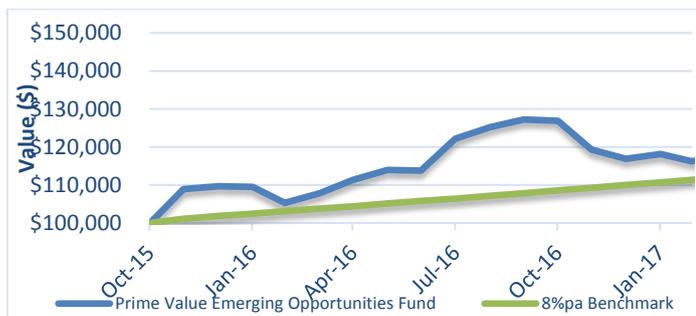
Feature	Fund facts
Portfolio Manager	ST Wong
Investment objective	To achieve superior absolute total returns by providing medium to long term capital growth without the constraints of a share market benchmark.
Benchmark	8% pa
Inception date	8 October 2015
Typical number of stocks	25-50
Cash	0 - 20%
Unlisted Exposure	0 – 20%
International Exposure	0 – 10%
Distribution	Half-yearly
Recommended investment period	3 + years
Annualised Return	12.0%



## Market review

March was another strong month for Australian equity investors, with the S&P/ASX 300 up 3.3% (including dividends). Global equity markets were generally strong. Developed markets (+1%), emerging markets (+2%) and the FTSE (+1%) all rose; however, the S&P 500 was flat (+0.1%) and the Nikkei fell 0.4%. As was the case in February, the materials and telco sectors underperformed. Mining was the worst performing sub-sector, weighed down by falling commodity prices including iron ore (-12% to US\$81 a tonne). The energy sector posted a positive return of 4.8% despite a 5% fall in the oil price to US\$52.83 a barrel (Brent). Domestically, all other sectors posted strong returns with the exception of the discretionary retail sub-sector. Mid-caps (+3.7%) outperformed large caps (+3.3%), while small-caps once again underperformed (+2.7%). Other noteworthy developments included APRA announcing further restrictions on mortgage lending (focused on interest-only lending). On the corporate front, Downer launched a takeover bid for Spotless.

Monetary policy and political developments continue to drive asset class markets. In the US, the Fed lifted rates as expected. However, its outlook statement and subsequent minutes were interpreted as more “dovish” than anticipated, particularly given the ongoing strength of economic data.



This graph shows how \$100,000 invested at the Fund's Inception has increased to \$118,300 (net of fees). This compares very favourably with the return of the benchmark, where a \$100,000 investment would have increased to \$112,060 over the same period. The returns exclude the benefits of imputation credits.

	Direct Investment
APIR Code	PVA0013AU
Minimum Investment	\$20,000
Issue price	\$ 1.1877
Withdrawal price	\$ 1.1783
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 positive performance	

### Mail:

Prime Value Asset Management Ltd  
Level 9, 34 Queen Street  
Melbourne VIC 3000  
Web: [www.primevalue.com.au](http://www.primevalue.com.au)

## Fund review & strategy

The Fund rose 1.8% in March and is up by 11.2% over the past year (after management fees but before performance fees). **National Veterinary Care, Skydive the Beach and Beacon Lighting** were key contributors to the March performance. Declines in **Netcomm Wireless, Service Stream and GR Engineering** detracted from performance during the month.

The Fund's performance continues to be dictated by the collective performance of individual investments. Most months, March being one of them, there is little correlation between the Fund's performance and the broader market. For example, the ASX300 Accumulation Index posted a return of 3.3% in March. However, the four major banks were responsible for 35% of the ASX300 Accumulation Index's 3.3% increase. The Fund does not hold any banks, and therefore its performance will be different to that of the commonly used indices such as the ASX300 Index.

We added to a number of our existing holdings during the month funded from positions that had grown to a larger weighting than we were comfortable with. Nick Skali for example, is a company that we took some profits on as it had grown to a large position for the portfolio whilst we exited our holding in Baby Bunting.

**Skydive the Beach** announced its proposal to acquire Reef Magic Cruises, a tourist cruise operator based in Cairns, for \$15m. The acquisition will be complementary to **Skydive the Beach's** current offering in Cairns, being tandem sky diving and white water related activities. More importantly, it gives **Skydive the Beach** the ability to cross-sell and package tour offerings. Consequently, the company should garner a larger share of the market compared to these activities being operated as stand-alone businesses. We have held **Skydive the Beach** since the Fund's inception - during this time, management has executed and acquired well, on the back of a longer term strategy to build a broader business. However, with the company valued at 19x earnings we are assessing the potential risk-reward of our holding.

Top contributors (absolute)	Sector
National Veterinary Care	Healthcare
Skydive the Beach	Consumer Discretionary
Beacon Lighting	Consumer Discretionary
Top detractors (absolute)	Sector
Netcomm Wireless	IT
Service Stream	Industrials
GR Engineering	Materials

### Contact details:

Phone: 03 9098 8088  
Fax: 03 9098 8099  
Email: [info@primevalue.com.au](mailto:info@primevalue.com.au)

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