

Prime Value Emerging Opportunities Fund Update – November 2016



- Investors rotated out of small cap to larger cap companies resulting in sharp price falls of some smaller companies. The Fund holds close to 20% in cash and is positioned to take advantage of emerging opportunities
- The Fund fell 7.0% during the month but has returned 16.5% pa since inception in October 2015
- We remain confident of our investee companies. Most are operating to expectations, including Nick Skali who has reported a better than expected start to FY17

	Total Return*	Benchmark (8% pa)	S&P/ASX Emerging Companies Accum Index
Since inception (pa)	16.5%	8.0%	15.2%
1 Year (pa)	9.5%	8.0%	13.5%
3 Months	-4.7%	1.9%	-4.4%
1 Month	-6.0%	0.6%	-1.2%

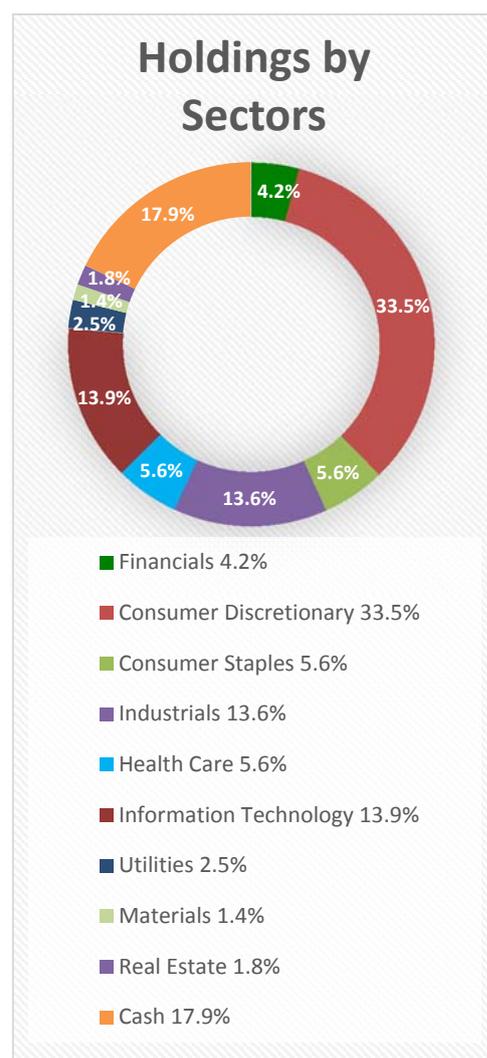
* Fund returns are calculated net of management fees and performance fees assuming all distributions are re-invested. Performance figures have been calculated in accordance with the Financial Services Council (FSC). The returns exclude the benefits of imputation credits. Past performance is not necessarily 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
Appen Ltd	Information Technology
Sky Dive the Beach Group	Consumer Discretionary

* The top five holdings make up approximately 22.2% 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
Annualised Return	16.5%



Market review

Global equities rallied and bond markets sold-off following Trump’s unexpected victory in November. Equity markets rose on hopes President elect Trump could reignite US growth, along with prospects of lessened banking and healthcare regulation. Bond yields rose sharply on the view that Trump’s economic program of fiscal stimulus and tax cuts would be reflationary, with US 10-year treasury yields up more than 50 basis points for the month.

Beneath the headline share market indices, however, the sector and stock dispersion was extreme. Driven by reflationary expectations, cyclical and value stocks rallied whilst defensive stocks, global bonds and gold were sold aggressively. The Australian share market outperformed most equity markets, driven by broad based outperformance of banking and resource stocks. Defensive and yield-oriented sectors underperformed, while discretionary retail was the worst performing sub-sector. Mega-caps (4.3%) and large-caps (3.6%) again outperformed mid-caps (0.8%) and small-caps (-1.2%). News flow was plentiful as the market digested a large number of progress updates from companies at their AGM.

Fund review & strategy

The Fund fell 7.0% during the month – its first significant fall since inception late last year. Since inception the Fund has returned a strong 16.5% pa.

Last month we highlighted a change in the macro environment, which saw an extreme rotation from smaller companies to larger companies. This trend continued in November and has affected the short term share price performance of a number of our investee companies. We observe that share price movements may have also been exacerbated by the lower trading liquidity that is a common feature amongst smaller companies.

As a smaller company fund, the portfolio mostly carries stock specific risks. In other words, the risks residing in the investee companies are typically unique to the company or business. This is in contrast to sector risks, or risks that may affect a group of companies in a particular sector. We approach our investments on a stock-by-stock basis, assessing for risk-reward on a singular basis. The stock-by-stock approach contrasts to theme or sector investing. It is within this context that we examine our investment cases – particularly through a difficult month such as November. We remain confident of in the companies we own. Even though a number of their share prices fell through November, none were on the back of corporate profit downgrades. In fact, a high proportion reported that business was operating per normal. In the case of Nick Skali, one of our investee companies, management reported that business through the first quarter of FY17 was tracking better than their expectations. Nick Skali’s share price was 8.6% higher in November.

The current trend of rotating funds from smaller to larger companies may continue for some time. It’s a development we are monitoring. Our high 20% cash holding provides us an ideal optionality to take advantage of the opportunities that are being thrown up in the small cap sector.



This graph shows how \$100,000 invested at the Fund’s Inception has increased to \$119,310 (net of fees). This compares very favourably with the return of the benchmark, where a \$109,240 investment would have increased to \$109,240 over the same period. The returns exclude the benefits of imputation credits.

	Direct Investment	Platform Investment
APIR Code	PVA0013AU	PVA0013AU
Minimum Investment	\$20,000	N/A
Issue price	\$ 1.1979	\$1.1979
Withdrawal price	\$ 1.1883	\$1.1883
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

Top contributors (absolute)	Sector
Nick Scali	Consumer Discretionary
Pinnacle	Financials
Paragon Care	Health Care
Top detractors (absolute)	Sector
GR Engineering	Industrials
Xenith IP	Industrials
Appen Limited	IT

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