

# Prime Value Emerging Opportunities Fund Update – November 2017



- The Australian share market posted another strong month with company AGMs setting a positive tone
- Further evidence of economic growth globally pushed share markets higher, although we note an increase in volatility towards the end of the month
- The Fund posted another strong month, up 1.5% in November, led by our investments in the IT sector

	Total Return*	Benchmark (8% pa)	Value Add
Since Inception (p.a.)	12.6%	8.0%	4.6%
2 Years (p.a.)	8.9%	8.0%	0.9%
1 Year	8.3%	8.0%	0.3%
3 Months	6.6%	1.9%	4.7%
1 Month	1.5%	0.6%	0.9%

\* 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) standards. The returns exclude the benefits of imputation credits. Past performance is not necessarily an indicator of future performance.

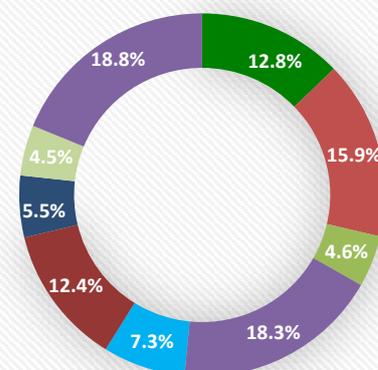
The Prime Value Emerging Opportunities Fund is a concentrated portfolio of companies with a market capitalisation of less than \$500 million at the time of first purchase by the Fund. The Fund may hold up to 30% in previously held companies which have grown their market cap above \$500m. Investors should 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
Experience Co Limited	Consumer Discretionary
Imdex Limited	Materials
Melbourne IT Limited	Information Technology
Service Stream Limited	Industrials

\* The top five holdings make up approximately 25.1% 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% p.a.
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

## Holdings by Sectors



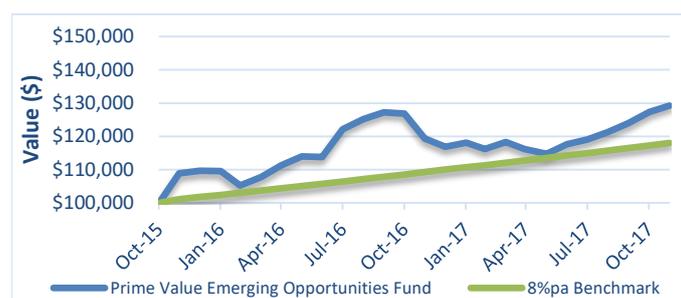
- Financials 12.8%
- Consumer Discretionary 15.9%
- Consumer Staples 4.6%
- Industrials 18.3%
- Health Care 7.3%
- Information Technology 12.4%
- Materials 5.5%
- Real Estate 4.5%
- Cash 18.8%

## Market review

November was another strong month for the S&P/ASX 300 Accumulation index (+1.7%), supported by ongoing momentum in the US. The S&P500 continued to make new highs, reflecting a better-than-expected US reporting season; a falling US dollar; and a seemingly clearer path forward for tax reform. At the same time, falling bond yields and a flattening US yield curve are providing a more cautionary signal for some. The Australian dollar weakened 0.8c to USD 0.7590 despite strength in the iron ore price. The oil price also rose (+3.6%) on expectations, later confirmed, that OPEC and Russia would extend production cuts to the end of 2018.

Domestic economic data was generally weaker than expected on the consumer front (retail sales, jobs growth and wage price index). However, construction data, including residential approvals, came out ahead of expectations.

REITS (+5.3%) was the best performing sector domestically, while Telcos (-1.6%) and financials underperformed. The bank sector (-3.2%) came under pressure on continuing calls for a Royal Commission. Late in the month the Government announced an inquiry after calls from the banks to restore confidence in the system. Small caps (+3.8%) continued to outperform midcaps (2.7%) and large-caps (+1.2%).



This graph shows how \$100,000 invested at the Fund's Inception has increased to \$129,230 (net of fees). This compares very favourably with the return of the benchmark, where a \$100,000 investment would have increased to \$117,980 over the same period. The returns exclude the benefits of imputation credits.

	Direct Investment
APIR Code	PVA0013AU
Minimum Investment	\$20,000
Issue price	\$ 1.2678
Withdrawal price	\$ 1.2576
Distribution (30/06/2017)	\$0.0092
Indirect Cost Ratio (ICR)	1.25%*
Performance fee	20%** p.a.

\* Unless otherwise stated, all fees quoted are inclusive of GST and less the relevant RITC  
 \*\*Of performance (net of management fees) above the agreed benchmark, subject to positive performance

## Fund review & strategy

The Fund returned 1.5% in November and has returned 10.0% this financial year. The largest positive contributors to performance in November were **Appen**, **Melbourne IT** and **Experience Co**, all of which rose by double digit percentages. **Freedom Insurance**, **Macmahon** and **BWX** were the key detractors during the month.

Appen's share price has appreciated 270% this year, and approximately quadruple since we first invested in the company about 2 years ago. We were attracted to Appen because we saw the value of its products to clients, which include Microsoft and other global internet based companies. By assisting its clients to gain further advantages, leading to growth and higher sales, Appen itself becomes more highly valued and rewarded. As a result, its revenues, profits, and share price have been rising strongly over the past two years. As a small company that can make a big difference for a very large company, Appen is an example of the type of business we look to discover and invest in for the Fund.

Freedom Insurance reported a profit downgrade in November, which was a disappointing outcome. The downgrade largely related to poor quality leads, which had a negative impact on conversion rates. Freedom Insurance's management believes they have addressed these issues and expect rates to return to normal over the next six months. Costs are also expected to increase in FY18 due to the investment in lead generation, marketing and infrastructure. Overall, Freedom Insurance appears to be working through some short term issues. We have been managing our position down, and it is now one of the smaller holdings in the portfolio. On a more positive note, it was pleasing to see that portfolio was sufficiently robust to absorb Freedom Insurance's price decline during the month.

We continue to expect smaller companies to be driven by stock specific factors rather than events in the broader macro environment.

Top Contributors (Absolute)	Sector
Appen	IT
Melbourne IT	IT
Experience Co	Consumer Discretionary
Top Detractors (Absolute)	Sector
Freedom Insurance	Financials
Macmahon	Industrials
BWX	Consumer Staples

### Contact details:

Esther Oh, Julie Abbott & Serena Shi.  
 Client Services Team

Phone: 03 9098 8088

Fax: 03 9098 8099

Email: [info@primevalue.com.au](mailto:info@primevalue.com.au)

### Mail:

Prime Value Asset Management Ltd

Level 9, 34 Queen Street

Melbourne VIC 3000

Web: [www.primevalue.com.au](http://www.primevalue.com.au)

The information contained in this Fund Update is general in nature and has no regard to the specific investment objectives, financial or particular needs of any specific recipient. It is not intended to constitute investment advice or a personal securities recommendation. This document is not a Product Disclosure Statement (PDS) or an offer of units, and contains a brief overview of the investment only. Any prospective investor wishing to make an investment in the Prime Value Emerging Opportunities Fund must obtain and read the PDS dated September 2017 (particularly the risk factors discussed) and complete an application form. Neither Prime Value Asset Management Limited nor its associates or directors, nor any other person, guarantees the success of the Prime Value Emerging Opportunities Fund, the repayment of capital or any particular rate of capital or income return, or makes any representation in relation to the personal taxation consequences of any investor's investment.