

# Prime Value Emerging Opportunities Fund Update – October 2016



- Investors were short-termed focussed as attention turned to rising bond yields and the US election.
- The Fund held up well, falling by 0.3% during the month, even as volatility rose significantly towards the end of the month due to speculation on the US election
- Stocks contributing positively to performance in October were Motorcycle, Infigen Energy and GTN, whilst Netcomm Wireless, Vita Group and Class Limited detracted from performance

	Total Return*	Benchmark (8% pa)	S&P/ASX Emerging Companies Accum Index
Since inception (pa)	24.9%	8.0%	17.8%
1 Year (pa)	23.8%	4.0%	14.9%
3 Months	3.9%	2.0%	-4.8%
1 Month	-0.3%	0.7%	-4.7%

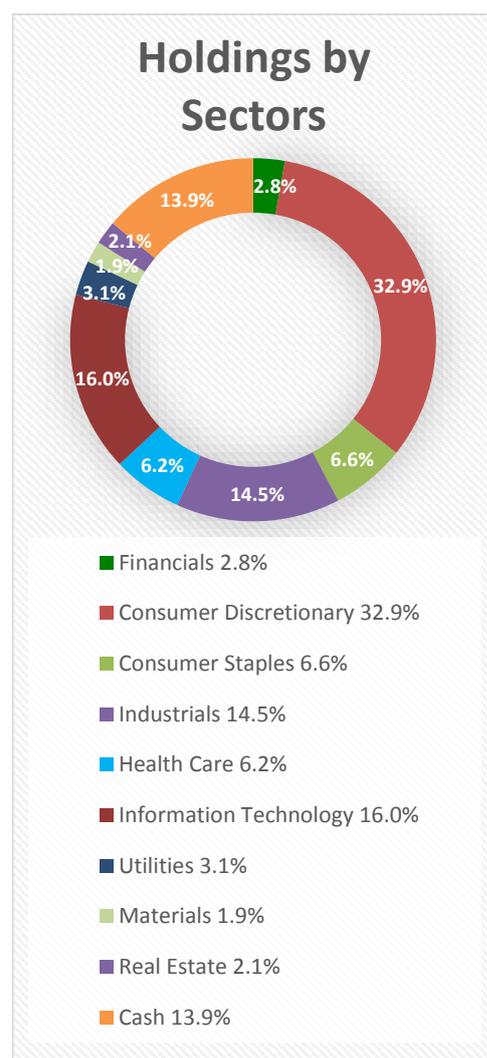
\* Fund returns are calculated net of management fees and performance fees assuming all distributions are re-invested. Performance figures have been calculated in accordance with the Financial Services Council (FSC). The returns exclude the benefits of imputation credits. Past performance is not necessarily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

\* The top five holdings make up approximately 22.6% 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	24.9%



## Market review

Global equity markets were generally lower in October, weighed down by rising bond yields, ongoing rotation out of defensive sectors, including ‘bond proxies’ and significant profit taking of better performing stocks. The Australian share market as measured by the ASX 300 Accum. Index declined 2.2% despite positive returns from the mining and banking sectors. Health Care and REITS were the worst performing sectors.

We know that macro events have a long tail of possible outcomes and are unpredictable. ‘Brexit’ is a good example of the futility of predicting such outcomes. Investors are currently focussed on two events: the US election and rising bond yields which could signal diminishing quantitative easing. We cannot call the election results. Nor do we make macro predictions such as the short term direction of interest rates. Macro forecasting has never been the starting point of our investment philosophy. However, it doesn’t mean we won’t take advantage of opportunities presented by macro-related market movements. Our focus continues to be on company fundamentals – these are areas which we have better control of and are able to draw upon our insights and experience. The Fund holds approximately 14% in cash which we expect to deploy when the right opportunities arise.

## Fund review & strategy

The Fund fell by a modest 0.3% in October. The benign performance headline number, however, does not reflect the large share price performance dispersion of many stocks. We emphasise that a large majority of these movements do not necessarily reflect the long term fundamentals of our investments. Short term share price movements can be dictated by a number of factors including sentiment and irrational investor behaviour and profit taking.

During the month, **Motorcycle** (+25.2%), **Infigen** (+24.8%), and **GTN** (+15.6%) were key contributors to performance. **Netcomm Wireless** (-19.2%), **Vita Group** (-17.5%), **Class Limited** (-13.3%) detracted from performance.

It was pleasing to note that **Motorcycle’s** share price recovered in October, after a poor September. At its recent AGM, the company’s management reported that demand for its products is robust whilst opportunities for acquisitions are plentiful. We highlighted last month that we are monitoring **Motorcycle’s** exposure to the sale of add-on insurance policies, a matter that has been raised by ASIC, for any adverse outcomes. We continue to monitor this issue.

Top contributors (absolute)	Sector
Motorcycle	Consumer Discretionary
Infigen Energy	Utilities
GTN	Consumer Discretionary
Top detractors (absolute)	Sector
Netcomm Wireless	IT
Vita Group	Consumer Discretionary
Class Limited	IT

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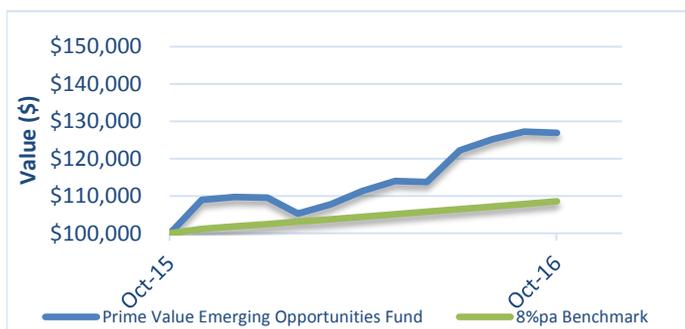
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This graph shows how \$100,000 invested at the Fund’s Inception has increased to \$126,880 (net of fees). This compares very favourably with the return of the benchmark, where a \$100,000 investment would have increased to \$108,550 over the same period. The returns exclude the benefits of imputation credits.

	Direct Investment	Platform Investment
APIR Code	PVA0013AU	PVA0013AU
Minimum Investment	\$20,000	N/A
Issue price	\$ 1.2739	\$1.2739
Withdrawal price	\$ 1.2637	\$1.2637
Indirect Cost Ratio (ICR)	1.25%	1.25%
Performance fee	20% <sup>1</sup> pa	20% <sup>1</sup> pa

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

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