

# Prime Value Emerging Opportunities Fund Update – October 2017



- Global equity markets were largely buoyant through October. The positive sentiment fed through to the Australian market
- The Fund returned 2.6% in October, building on strong performances in preceding months. For the first four months of FY18, the Fund has returned 8.2%
- A number of our investments, including Motorcycle Holdings and BWX, raised new capital during the month for acquisitions

	Total Return*	Benchmark (8% pa)	Value Add
Since Inception (p.a.)	<b>12.3%</b>	8.0%	4.3%
2 Years (p.a)	<b>11.4%</b>	8.0%	3.4%
1 Year	<b>0.3%</b>	8.0%	(7.7%)
3 Months	<b>6.9%</b>	2.0%	4.9%
1 Month	<b>2.7%</b>	0.7%	2.0%

\* 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.

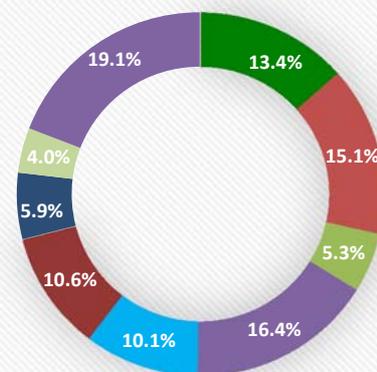
The Prime Value Emerging Opportunities Fund is a concentrated portfolio of companies with a market capitalisation of less than \$500 million at the time of first purchase by the Fund. The Fund may hold up to 30% in previously held companies which have grown their market cap above \$500m. Investors should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

\* The top five holdings make up approximately 23.6% 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% 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 13.4%
- Consumer Discretionary 15.1%
- Consumer Staples 5.3%
- Industrials 16.4%
- Health Care 10.1%
- Information Technology 10.6%
- Materials 5.9%
- Real Estate 4.0%
- Cash 19.1%

## Market review

October was another strong month for equity markets globally, underpinned by a supportive economic backdrop and a revival of US President Trump's tax reform plans. The S&P/ASX 300 Index posted its best return for the year (+4%), outperforming global indices in local currency terms with the exception of the Japanese Nikkei, which rose 8.2% on a landslide election outcome. While domestic economic data was mixed (employment positive but retail sales and CPI inflation below expectations), global developed-market manufacturing surveys were strong across the board, hitting levels not seen since 2004 in the case of the US. As a proxy for global economic conditions, base metals were the standout commodity class in October. Oil also had another strong month, up 6.7% to US\$61.37 a barrel (Brent). The Australian dollar fell 1.8 cents to USD 0.7670 reflecting US dollar strength, soft CPI inflation data and a weakening iron ore price.

Consistent with global markets, the best performing domestic sector was information technology (+8.4%), followed by energy (+6.4%). While all sectors posted strong returns, REITs (+2.2%), telcos (+2.4%) and the banks (+2.8%) underperformed. Small caps continued to outperform, returning +6.0% versus +5.8% for mid-caps, +3.5% for large-



This graph shows how \$100,000 invested at the Fund's Inception has increased to \$127,270 (net of fees). This compares very favourably with the return of the benchmark, where a \$100,000 investment would have increased to \$117,230 over the same period. The returns exclude the benefits of imputation credits.

	Direct Investment
APIR Code	PVA0013AU
Minimum Investment	\$20,000
Issue price	\$ 1.2678
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

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## Fund review & strategy

Strong fund performance continued into October, with the Fund returning 2.6%. The Fund is up 8.2% over the first four months of this financial year, despite a large cash position of 19%. The largest positive contributors to performance in October were **Apollo Tourism & Leisure**, **Imdex** and **Macmahon**, all of which rose by double digit percentages. **Service Stream**, **National Vet** and **Capitol Health** were the key detractors during the month.

In the emerging companies sector, the Prime Value team continues to devote time and resources in meeting and investigating many more companies than we will ever invest in. We believe this helps improve our research and investment process. Our research analysts and portfolio managers have worked together extensively and with the continuous work, our industry expertise, knowledge and judgement continue to expand. While building up our corporate knowledge, we remain more focused than ever on perhaps the most important element for investing in emerging companies – the people driving the companies we invest in.

We believe in 'track record' when investigating businesses or sectors – studying long term performance and management of financial obligations, and extending to management of employees and shareholders. We will not invest in a company unless we are confident and comfortable with the company's management. This process is a first but continuous part of our investment process that helps us narrow our focus on quality, growing companies led by management teams whose interests are aligned to ours as shareholders. Over the long term, we have found this process of understanding the character and talent of executive teams extremely effective in delivering outperformance.

Looking forward, we continue to see investment opportunities for the Fund. However, the broad sectorial focus has shifted over the last 12 months. The portfolio now has a much broader sectorial spread, which is a deliberate risk management strategy to ensure that the Fund is well diversified.

Top Contributors (Absolute)	Sector
Apollo Tourism & Leisure	Consumer Discretionary
Imdex	Industrials
Macmahon	Industrials
Top Detractors (Absolute)	Sector
Service Stream	Industrials
National Vet	Health Care
Capitol Health	Health Care

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