

# Prime Value Emerging Opportunities Fund Update – September 2017



- The Australian share market was held back by defensive sectors such as Telecoms, Utilities and Consumer Staples. The broad market ended flat for the month
- There are few large themes currently influencing the market but we are finding investment opportunities in selected sectors and bottom up driven ideas
- The Fund returned 2.3% in September, building on strong performances in preceding months. For the first three months of FY17, the Fund has returned 5.4%

	Total Return*	Benchmark (8% pa)	Value Add
Since inception (p.a.)	<b>11.4%</b>	8.0%	3.4%
2 Years	<b>11.4%</b>	8.0%	3.4%
1 Year	<b>(2.6%)</b>	8.0%	(10.6%)
3 Months	<b>5.4%</b>	2.0%	3.4%
1 Month	<b>2.3%</b>	0.7%	1.6%

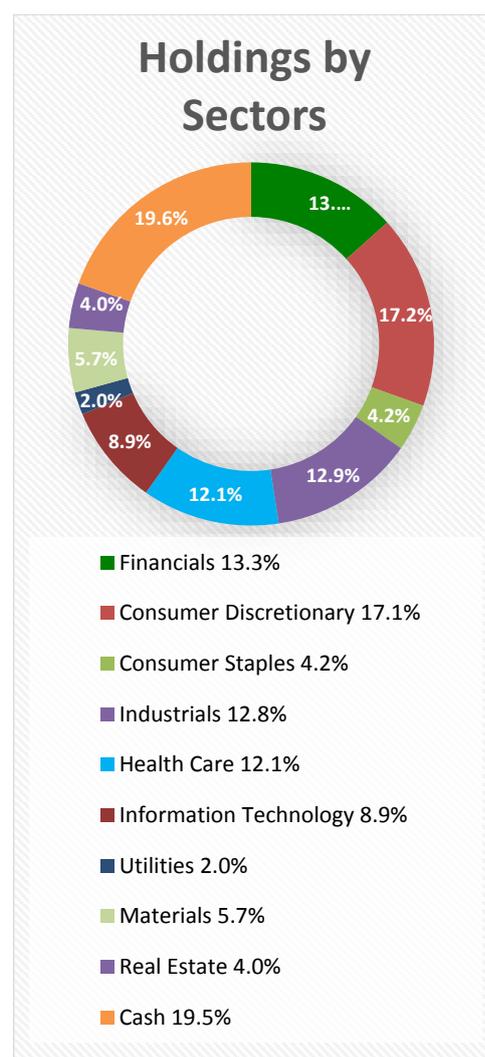
\* Fund returns are calculated net of management fees and performance fees assuming all distributions are re-invested. Performance figures have been calculated in accordance with the Financial Services Council (FSC). The returns exclude the benefits of imputation credits. Past performance is not necessarily 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
Appen Limited	Information Technology
Service Stream	Industrials
Imdex Ltd	Materials
National Veterinary	Healthcare
Skydive the Beach	Consumer Discretionary

\* The top five holdings make up approximately 24.1% 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% 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	11.4%



## Market review

The S&P/ASX 300 Accumulation index was flat in September (+0.04%), underperforming global equities (developed markets). Drivers of the global equities rally included an easing of geopolitical tensions as well as the unveiling of US President Trump's much anticipated tax framework. Another key development was news that the US Federal Reserve would begin unwinding its \$4.5tr balance sheet, reversing the quantitative easing program. Defensive sectors underperformed, partly due to rising bond yields, with a 'hawkish' Fed keeping alive expectations of a December rate hike. Mining was the worst performing sub-sector globally. Key drivers included a strengthening US dollar and impending steel production cuts in China, which weighed heavily on the iron ore price (down almost 20%). Oil bucked the trend (Brent rose 7.1%) on a resumption of US refinery operations, higher forecast oil demand growth from the IEA and Kurdish referendum tensions. The gold price fell. The Australian dollar was down around 1% to USD 0.7850.

Domestically, the best performing sectors were Health Care (+2.3%), major banks (+1.4%) and Energy (+1.1%). The defensive sectors underperformed, led by Telcos (-4.5%), Utilities (-3.6%) and Consumer Staples (-1.9%). Small caps again outperformed, rising 1.3% versus +0.2% for mid-caps, +0.1% for mega-caps and -0.2% for large-caps.



This graph shows how \$100,000 invested at the Fund's Inception has increased to \$123,980 (net of fees). This compares very favourably with the return of the benchmark, where a \$100,000 investment would have increased to \$116,440 over the same period. The returns exclude the benefits of imputation credits.

## Fund review & strategy

We are pleased with the continued strong performance of the Fund, which rose 2.3% in September. The Fund is up 5.4% for the first three months of this financial year, despite a large cash position of approximately 20%, demonstrating the success of the current strategy. The largest positive contributors to performance in September were **Appen**, **National Vet** and **Sky Dive the Beach**, all of which rose by double digit percentages. **Cabcharge**, **Freedom Insurance** and **Pinnacle Investments** were the key detractors during the month.

In managing the Fund, we use our industry expertise and extensive research experience to identify and selectively invest in a number of investment opportunities where we have strong conviction. As a result, the Fund currently holds approximately 30 companies – a relatively low number compared to peer funds.

When making an investment, we seek to discover and invest in companies that have strong management, driving long term growth plans, at reasonable valuations.

We have written about Appen, National Vet and Sky Dive the Beach in past Fund updates. All three companies fit the broad description of the investment approach highlighted above: We have held our investments for a relatively long period of time, allowing our investment thesis to develop and for company management to drive growth plans. Our investments in these companies began at an early stage of their growth cycle, enabling us to invest at reasonably valuations. Finally, we hold large positions in the Fund, reflecting our conviction.

We also hold a large position in Pinnacle, another company we have written about in previous fund updates. Given the strong share price appreciation, some element of profit taking is to be expected, and we continue to monitor the company's growth progress while being aware of its high valuation multiple.

In future fund updates, we will share our approach to managing risk and volatility. Returns of smaller companies are driven by company specific events and market or macro events have a lesser influence. Being able to understand and evaluate idiosyncrasies of companies offers us plenty of opportunities. More importantly, these skills assists us in avoiding the wrong investment choices.

Top contributors (absolute)	Sector
Appen Limited	Information Technology
National Veterinary	Healthcare
Sky Dive the Beach	Consumer Discretionary
Top detractors (absolute)	Sector
Cabcharge	Industrials
Freedom Insurance	Financials
Pinnacle Investments	Financials

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	Direct Investment
APIR Code	PVA0013AU
Minimum Investment	\$20,000
Issue price	\$ 1.2350
Withdrawal price	\$ 1.2252
Distribution (30/06/2016)	\$0.0092
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	

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