Prime Value Emerging Opportunities Fund Update – December 2018

- Global share markets sold off in December, led by the US market. The Australian share market performed extremely well in that context, falling by 0.2%. Mining and defensive sectors outperformed.
- The Emerging Opportunities Fund return was -5.8% in December, 1.9% below the Emerging Companies Index return of -3.9%. We gave up some previous outperformance in the month, finishing the 6 months 10% above the index and the 12 months 15.4% above the index.
- The fund's investment mandate was changed effective January 9, 2019 which broadens the investable universe. We are excited by this change and have already established new positions in attractively priced companies.

	Total Return*	Benchmark (8% pa)	Value Add
Since Inception (p.a.)	**8.0%**	8.0%	0.0%
2 Years (p.a.)	**4.7%**	8.0%	(3.3%)
1 Year	**(4.5%)**	8.0%	(12.6%)
3 Months	**(12.2%)**	2.0%	(14.1%)
1 Month	**(5.8%)**	0.7%	(6.5%)

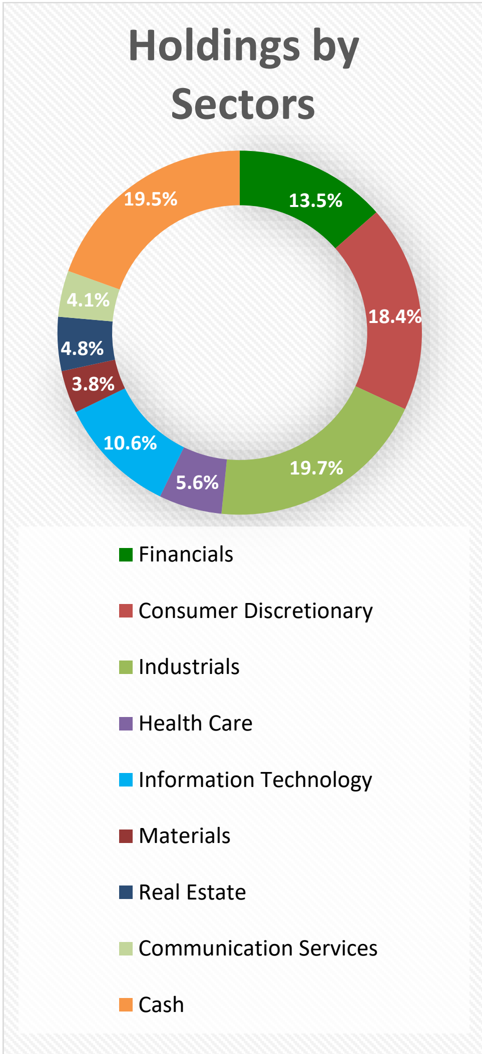
* Fund returns are calculated net of management fees and performance fees assuming all distributions are re-invested. Performance figures have been calculated in accordance with the Financial Services Council (FSC) standards. The returns exclude the benefits of imputation credits. Past performance is not necessarily an indicator of future performance.

	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	FYTD	ITD
FY 2015					6.3%	0.7%	(0.2%)	(3.9%)	2.4%	3.3%	2.4%	(0.2%)	**13.8%**	**13.8%**
FY 2016	7.4%	2.5%	1.6%	(0.3%)	(6.0%)	(2.0%)	1.1%	(1.6%)	1.8%	(1.8%)	(1.2%)	2.5%	**3.4%**	**17.6%**
FY 2017	1.3%	1.8%	2.3%	2.7%	1.5%	3.9%	(0.8%)	0.6%	(2.2%)	(0.5%)	3.9%	3.4%	**19.0%**	**40.0%**
FY 2018	(0.8%)	2.9%	2.1%	(4.8%)	(2.0%)	(5.8%)							**(8.4%)**	**28.2%**

Top five holdings	Sector
Infomedia	Information Technology
Centuria Capital Group	Financials
Capitol Health	Health Care
Hotel Property Investment	Real Estate
Data#3 Limited	Financials

* The top five holdings make up approximately 18.6 % of the portfolio

Feature	Fund facts
Portfolio Manager	Richard Ivers
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 - 100%
Unlisted Exposure	0 – 20%
International Exposure	0 – 20%
Distributions	Half-yearly
Recommended investment period	3 + years

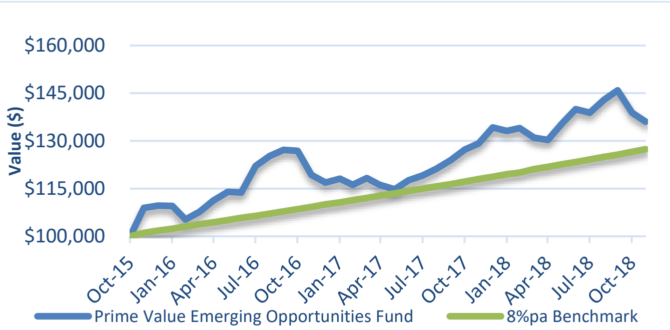


Market review

Global markets fell sharply in December, led by the US share market. Investors had to deal with a number of events during the month including the continued US China trade war and higher US Interest rates. For context, since the US market peaked in September, investors appear to have priced in every conceivable macro risk. Australia was the best performing major market, falling by a relatively small 0.2%. Global bonds rose significantly, driven primarily by a fall in inflation expectations. The Australian Dollar fell to $0.7040 against the US Dollar. Oil declined again, while gold continued to rise as investors sought safe havens.

Within Australian stock sectors, Materials (+5.3%), Health Care (+2.9%) and Utilities (+2.9%) outperformed the most, while Telcos (-5.0%), IT (-4.0%) and Financials (-3.1%) underperformed the most.

With the recent pull back, the Australian share market is trading below its long term average PE ratio of 14.5x and yielding 6% (gross). Better valuations and fundamentals that are still robust point toward investment opportunities opening up for longer term investors. Earnings and economies will still expand in 2019, just not at 2018's pace. Perhaps surprising to some, key fundamentals turned quite bullish for risk assets amid the fourth-quarter stock market volatility. In pricing slower growth, the yield on the 10-year US Treasury bond fell from 3.25% to 2.65% and the US Federal Reserve became more dovish, both of which are supportive of higher valuations.



This graph shows how $100,000 invested at the Fund's Inception has increased to $128,200 (net of fees). This compares with the return of the benchmark, where a $100,000 investment would have increased to $128,300 over the same period. The returns exclude the benefits of imputation credits.

	Direct Investment
APIR Code	PVA0013AU
Minimum Investment	$20,000
Issue price	$ 1.2242
Withdrawal price	$ 1.22144
Distribution (30/06/2018)	$0.0423
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

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Fund review & strategy

The fund's return was -5.8% in December, 1.9% below the Emerging Companies index (-3.9%) and below the benchmark of 0.7% (8% p.a.).

Key positive contributors to fund performance in December were **Equity Holdings** (EQT +6.8%), **CML Group** (CGR +5.5%) and **Lindsay** (LAU +6.9%). Key detractors were **GTN** (GTN -46.6%), **Axcesstoday** (AXL -70.0%) and **Redbubble** (RBL -22.8%).

EQT Holdings rallied as increased focus on the Financial Services Royal Commission drew attention to EQT as a potential beneficiary. As an independent trustee company it has the potential to win new contracts as vertically integrated organisations look to remove perceived conflicts of interest or divest operations. **CML group** rallied on little news, but had previously been sold down to low levels. **Lindsay** also rallied on little news. A competitor went into liquidation and the pricing environment remains positive which should assist future earnings growth.

Two stocks contributed almost half of the portfolios decline in the month (**GTN** and **Axcesstoday**). **GTN** fell after providing disappointing earnings guidance for the 6 months to December 2018. Analysts downgraded earnings by c. 15% but the stock fell 47% reflecting the savage market environment and a broader sell-off in cyclical stocks. As mentioned last month, we had reduced our GTN weighting but were still impacted by the large fall. **Axcesstoday** is currently suspended and looking to raise capital. We took the view this will be more difficult in the current environment so reduced the valuation to well below net tangible assets as a prudent measure. **Redbubble** continued to be impacted by a disappointing update in November and was also caught up in December's broader tech sell off.

During the month new positions were established in **Ive Group (IGL)** and **Mainstream** (MAI). We exited **Scottish Pacific** (SCO) as the takeover completed.

In December 2018, unitholders voted in favour of the investment mandate change which took effect 9 January, 2019. This enables us to invest in companies with a market capitalisation up to c. $2 billion compared to the previous restriction of $500 million. We are excited by the opportunities presented by this change and immediately took advantage by establishing positions in attractively priced companies that can grow their earnings independent of the economic cycle. The recent market sell-off is presenting good entry points for many of these companies so timing has been fortunate. We expect the average quality of investment in the portfolio to improve which should deliver higher risk adjusted returns over the long run.

Top Contributors (Absolute)	Sector
EQT Holdings	Financials
CML Group	Industrials
Lindsay	Industrials
Top Detractors (Absolute)	**Sector**
GTN	Communication Services
Axcesstoday	Financials
Redbubble	Consumer Discretionary

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