

# Prime Value Emerging Opportunities Fund Update – February 2018



- The Australian share market ended February broadly flat, with an early market correction more than offset by a better than expected reporting season
- Fund performance was solid, up 0.6% in February, bringing the annual return to 15.3%. The February reporting period was another opportunity to assess the outlooks for our portfolio holdings. On balance, we are finding more positive outcomes than negatives from companies reporting

	Total Return*	Benchmark (8% pa)	Value Add
Since Inception (p.a.)	12.9%	8.0%	5.0%
2 Years (p.a.)	12.8%	8.0%	4.8%
1 Year	15.3%	8.0%	7.3%
3 Months	3.7%	1.9%	1.7%
1 Month	0.6%	0.6%	0.0%

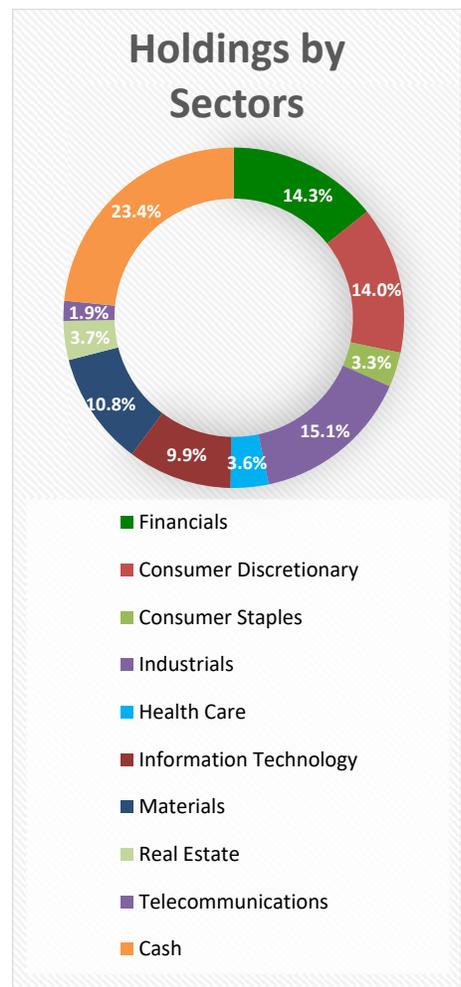
\* Fund returns are calculated net of management fees and performance fees assuming all distributions are re-invested. Performance figures have been calculated in accordance with the Financial Services Council (FSC) standards. The returns exclude the benefits of imputation credits. Past performance is 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
Imdex Limited	Materials
Appen Limited	IT
Service Stream Limited	Industrials
Experience Co Limited	Consumer Discretionary
Pinnacle Investment Management Group	Financials

\* The top five holdings make up approximately 24.5% 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



## Market review

Australian equities outperformed global peers in February, with the S&P/ASX 300 Accumulation Index rising 0.6% despite the broader sell-off in global equity markets. The US equity market entered official correction territory before recovering over the month. The pull-back was driven by rising bond yields and concerns about inflationary pressures, against a backdrop of elevated valuations. The Australian dollar fell 3 cents to USD0.78 despite a rise in bulk commodity prices. Oil prices fell 4.7% to USD65.78 a barrel (Brent), reflecting a declining market risk appetite. The gold price fell 2% despite increased risk aversion, reflecting increased expectations of US interest rate hikes and US dollar strength.

The domestic reporting season was better than expected, although forecast earnings growth (ex-Resources) remains very moderate relative to expectations for corporate earnings globally. Those higher growth companies which continued to deliver performed very strongly. Health Care was the strongest performing sector over the reporting season, while Consumer Staples also performed well. The major laggards were Telcos, Energy and Utilities. Mid-caps outperformed (+0.9%) large-caps (+0.3%) while small-caps were flat.



This graph shows how \$100,000 invested at the Fund's Inception has increased to \$134,000 (net of fees). This compares very favourably with the return of the benchmark, where a \$100,000 investment would have increased to \$120,020 over the same period. The returns exclude the benefits of imputation credits.

	Direct Investment
APIR Code	PVA0013AU
Minimum Investment	\$20,000
Issue price	\$ 1.3345
Withdrawal price	\$ 1.3239
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 posted a solid performance in February, rising 0.6% and bringing the annual return to 15.3%. Key contributors to fund performance were **Imdex**, **Service Stream** and **Appen**. **BWX**, **Motorcycle Holdings** and **Apollo Tourism** were the key detractors during the month.

The reporting season was the key focus for the Fund. Not surprisingly, the key contributors to fund performance during the month reported strong profits and provided positive outlook statements.

Imdex reported 28% growth in revenues, accompanied by an expansion in margins. Higher exploration and mining activities are leading to an increase in demand for drilling tools and consumables. Imdex said that tools on hire were 25% higher in January, highlighting the prospective growth in the company for the next 6 months.

Service Stream delivered another high-quality result with 1H18 EBITDA increasing 52% to \$32.1m, ahead of guidance provided in early December for at least \$30m. The strong result was underpinned by organic growth of 42%, before a full 6-month contribution from TechSafe, which was acquired in late April 2017. Service Stream has also provided guidance for FY18 EBITDA of \$64m on the back of announcing a share buy-back for up to 7.5% of issued capital, or 27.4m shares.

Appen reported good revenue growth of 50% over the first half of the financial year, with an impressive expansion to margins that resulted in even stronger profit growth. The operating momentum of the business, as reflected in Appen's orders in hand, suggest the second half of the financial year would continue to be strong.

BWX's share price fell heavily as the company failed to meet expectations for top-line revenue growth across a number of its business lines. Costs were also higher than expected as BWX invested into existing and recently acquired businesses, thereby reducing near term margins. The Fund had been reducing its exposure to BWX prior to its results release. However, we will be reassessing our position with the sharp decline in BWX's share price.

Top Contributors (Absolute)	Sector
Imdex	Materials
Service Stream	Industrials
Appen	IT
Top Detractors (Absolute)	Sector
BWX	Consumer Staples
Motorcycle Holdings	Consumer Discretionary
Apollo Tourism	Consumer Discretionary

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