

Prime Value Emerging Opportunities Fund Update – July 2019



- Major share markets were mixed in July with good performances in the US and UK offset by weaker north Asian markets due to geopolitical tensions
- The Emerging Opportunities Fund return was +5.3% in July, 0.8% above the Small Ordinaries Index return of 4.5% and 4.5% above the benchmark of 0.7% (8% p.a.).
- Relative performance was particularly pleasing in July as we do not invest in resource companies and these were stronger (+7.9%) than industrial companies (+3.7%) which are our focus.

	Total Return*	Benchmark (8% pa)	Value Add
Since Inception (p.a.)	11.0%	8.0%	3.0%
3 Years (p.a.)	6.9%	8.0%	(1.1%)
2 Years (p.a.)	11.9%	8.0%	3.9%
1 Year	7.4%	8.0%	(0.6%)
3 Months	3.6%	2.0%	1.6%
1 Month	5.3%	0.7%	4.6%

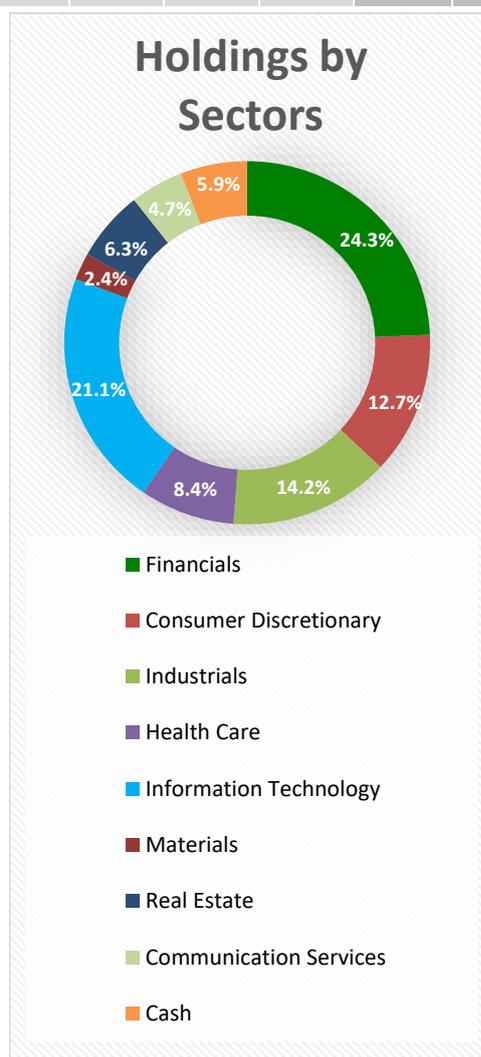
* Fund returns are calculated net of management fees and performance fees assuming all distributions are re-invested. Performance figures have been calculated in accordance with the Financial Services Council (FSC) standards. The returns exclude the benefits of imputation credits. Past performance is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

	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	FYTD	ITD
FY 2016					6.3%	0.7%	(0.2%)	(3.9%)	2.4%	3.3%	2.4%	(0.2%)	13.8%	13.8%
FY 2017	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 2018	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 2019	(0.8%)	2.9%	2.1%	(4.8%)	(2.0%)	(5.8%)	1.5%	5.8%	1.9%	2.7%	(1.0%)	(0.6%)	1.2%	41.7%
FY 2020	5.3%												5.3%	49.2%

Top five holdings	Sector
Centuria Capital Group	Financials
PSC Insurance Group	Financials
Bravura Solutions	Information Technology
Mainfreight Ord	Industrials
EQT Holdings	Financials

* The top five holdings make up approximately 23.7% of the portfolio

Feature	Fund facts
Portfolio Manager	Richard Ivers
Investment objective	To achieve superior absolute returns by providing medium to long term capital growth investing in smaller, high growth companies.
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 were mixed in July, with developed markets up 1.2% month on month in local currency terms, but emerging markets fell 0.9%. In local currency terms, the ASX 200 Index was the best performing major index (+2.9%), followed by the FTSE 100 Index (+2.2%) and S&P 500 Index (+1.4%).

In Australia smaller companies outperformed their larger peers with the Small Ordinaries +4.5% for the month while the ASX100 was +3.4%.

Small resources were particularly strong in July at +7.9%, largely driven by gold stocks. Small Industrials were +3.7% with large technology stocks continuing to trade strongly (Wisetech +15.3%, Promedius +21.6) while smaller technology stocks were mixed.

Since the December 2018 low, the Australian share market is up close to 25%, making it one of the best performing share markets globally over that period. Several key drivers were evident including a substantial rise in iron ore prices, an unexpected Coalition win, APRA easing mortgage lending requirements and RBA flagged interest rate cuts.

The US Federal Reserve and RBA cut interest rates by 25bp, with the RBA signalling lower rates for longer. The Australian Dollar fell to \$0.689, despite another \$4.5 per ton lift in iron ore prices to \$121 per ton.



This graph shows how \$100,000 invested at the Fund's Inception has increased to \$149,200 (net of fees). This compares with the return of the benchmark, where a \$100,000 investment would have increased to \$134,100 over the same period. The returns exclude the benefits of imputation credits.

	Direct Investment
APIR Code	PVA0013AU
Minimum Investment	\$20,000
Issue price	\$ 1.4145
Withdrawal price	\$ 1.4033
Distribution (30/06/2019)	\$0.0278
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 +5.3% in July, 0.8% above the Small Ordinaries Index return of 4.5%. Key positive contributors were **Data#3** (DTL +19.8%), **Infomedia** (IFM +20.2%) and **Australian Finance Group** (AFG +23.2%). Key detractors were **Over The Wire** (OTW -3.1%), **Wellcom** (WLL -3.7%) and **Technology One** (TNE -2.8%).

The focus of our fund is listed companies outside the ASX100 and our closest comparable index is the Small Ordinaries. Performance of this index over 2019 has been largely driven by gold miners and selected technology companies. Many stocks in the tech sector have risen well above most rational valuations. In July some of the smaller momentum driven tech stocks started to fall including Nearmap, Audinate, Jumbo and Rhipie. This accelerated in August and expanded to larger companies like Wisetech, Promedius and Afterpay. All good companies we would like to own but with stretched valuations, in our view. We expect this volatility to continue and be a key influence on our returns relative to the index. Our focus on absolute returns is reflected in the 8% p.a. benchmark so we do not need to hold stocks just because they are part of the index and rising. This is a key difference between our approach and many other fund managers. We do particularly well when markets are rational or falling due to our focus on quality stocks at reasonable prices. This was evidenced in 2018 and again more recently. We invest based on fundamentals and take a longer term view. Our fund consists of ~35 stocks that represent part ownership of companies that we have high confidence will generate higher earnings and cashflow in 3-5 years' time, purchased at reasonable prices.

Key highlights in July included an earnings update by **Data#3** that was above market expectations. It was one of our larger holdings and after a strong rise we trimmed its weighting as it now looks more reasonably priced. **Australian Finance Group** continued to rise with increased confidence in housing credit growth but remains attractively priced on an FY20 PE of ~10x yielding 7%. There were no significant declines for the portfolio in the month.

New positions were established in **IMF Bentham**, **Redbubble** and **Over the Wire**. We exited **Spicers** as the takeover offer completed and **Vista Group** on valuation.

Top Contributors (Absolute)	Sector
Data#3	Information Technology
Infomedia	Information Technology
Australian Finance Group	Financials
Top Detractors (Absolute)	Sector
Over the Wire	Information Technology
Wellcom	Industrials
Technology One	Information Technology

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