

Prime Value Emerging Opportunities Fund Update – March 2018



- “Big picture factors”, particularly concerns about tit-a-tat trade restrictions between China and the US, drove share market performances in March. The Australian ASX300 Accumulation Index fell 3.7%.
- While this fall seems significant in light of the recent long period of benign share market volatility, it is within the norms of market ebbs and flows.
- The Fund fell 2.2% in March, broadly in line with the small-companies index as investors sold off positions during a difficult month for markets.

	Total Return*	Benchmark (8% pa)	Value Add
Since Inception (p.a.)	11.4%	8.0%	3.4%
2 Years (p.a.)	10.2%	8.0%	2.2%
1 Year	10.7%	8.0%	2.7%
3 Months	(2.5%)	2.0%	(4.5%)
1 Month	(2.2%)	0.7%	(2.9%)

* 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.

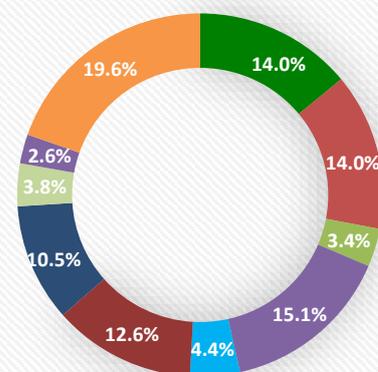
The Prime Value Emerging Opportunities Fund is a concentrated portfolio of companies with a market capitalisation of less than \$500 million at the time of first purchase by the Fund. The Fund may hold up to 30% in previously held companies which have grown their market cap above \$500m. Investors should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

* The top five holdings make up approximately 24.7% 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%
Distributions	Half-yearly
Recommended investment period	3 + years

Holdings by Sectors



Market review

Equity markets declined during the back-end of March, largely driven by fears of a global trade war. This followed the US President's decision to impose significant new tariffs on steel, aluminium and Chinese imports. The Australian share market underperformed (down -3.7%), weighed down by the performance of the banks amid new misconduct allegations at the Banking Royal Commission hearings. The materials sector also underperformed, reflecting a large decline in bulk commodity prices (namely iron ore and coal). Higher beta sectors such as financials, materials and IT also drove the decline in global equity markets. The Australian dollar fell 1.2 cents to USD 0.7670 reflecting the decline in bulk commodity prices, while the yield spread between Australian and US bonds remained negative. Oil prices rose, up 2.8% to US\$67.64 a barrel (Brent), largely driven by a surprise drop in US inventories. The only sector to produce a positive return during the month was the REITs (+0.1%), helped by the decline in global bond yields. Another of the bond proxy sectors utilities, also performed well in a relative sense (-0.8%). The major laggard was telecommunications (-6.2%), followed by financials (-5.8%) and materials (-4.2%). Consistent with FY18 market performance-to-date, small-caps outperformed mid-caps (-2.9%), large-caps (-4.1%) and mega-caps (-4.7%).



This graph shows how \$100,000 invested at the Fund's Inception has increased to \$131,000 (net of fees). This compares very favourably with the return of the benchmark, where a \$100,000 investment would have increased to \$121,100 over the same period. The returns exclude the benefits of imputation credits.

	Direct Investment
APIR Code	PVA0013AU
Minimum Investment	\$20,000
Issue price	\$ 1.3045
Withdrawal price	\$ 1.2941
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 2.2% decline in March, broadly in line with the small-companies index as investors sold off positions during a difficult month for markets. Key contributors to fund performance were **Bravura Solutions, Axsesstoday and Melbourne IT. Australian Finance Group, NRW Holdings and Appen** were the key detractors during the month.

Bravura, a provider of mission critical software to the wealth management and fund administration industries, is a recent addition to the Fund. Regulatory and technological changes, with the need to contain costs, are key reasons Bravura's suite of products are in demand. Bravura operates a licence-based revenue model and generates revenues in three main categories: first, licence fees; second, maintenance/hosting/support fees; while the third, professional service fees, are more variable depending on customer upgrades and functionality requirements. With average contract lengths of 5 -10 years and high renewal rates, revenue visibility is high.

Regulatory change has also been driving behaviour amongst Australia's large banking institutions. Tighter regulatory constraints are restricting banks risk appetites, giving rise to alternate forms of financing. Alternative financiers such as Axsesstoday and Homeloans, funding small and medium sized companies and of home loans respectively are experiencing strong demand for their services on account of bank pull-backs. Axsesstoday provides finance services to small to medium sized enterprises (SMEs) for equipment especially to the hospitality and transport sectors.

NRW Holdings had a difficult month as the Tunnel Boring Machines on the Forrestfield link project have temporarily stopped work pending clarity on surface ground conditions as the machines approach the Perth airport. We note that NRW's client, the Perth Transport Authority and Perth Airport are working to sign off on ground conditions such that progress continues toward the project's 2020 timeline. Depending on when project work recommences, delays could have an impact on NRW's FY18 profits but the contract should remain profitable over the life of the works. NRW is currently tendering for approximately \$6bn of works in the iron ore and civil construction sectors.

Top Contributors (Absolute)	Sector
Bravura Solutions	IT
Axsesstoday	Financials
Melbourne IT	Consumer Staples
Top Detractors (Absolute)	Sector
Australian Finance Group	Financials
NRW Holdings	Industrials
Appen	IT

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