Prime Value Emerging Opportunities Fund Update – May 2018

- Developed countries' share markets posted small gains in May, in contrast to large falls in Emerging Markets
- The Australian share market performed better than most of its developed market peers. The Healthcare sector was a standout performer whilst Telstra fell heavily, exerting a considerable drag on the index
- The Fund had a strong month with a 3.9% gain, 2.5% above the emerging companies index gain of 1.4%

	Total Return*	Benchmark (8% pa)	Value Add
Since Inception (p.a.)	**12.1%**	8.0%	4.1%
2 Years (p.a.)	**9.0%**	8.0%	1.0%
1 Year	**18.0%**	8.0%	10.0%
3 Months	**1.1%**	2.0%	(0.9%)
1 Month	**3.9%**	0.7%	3.3%

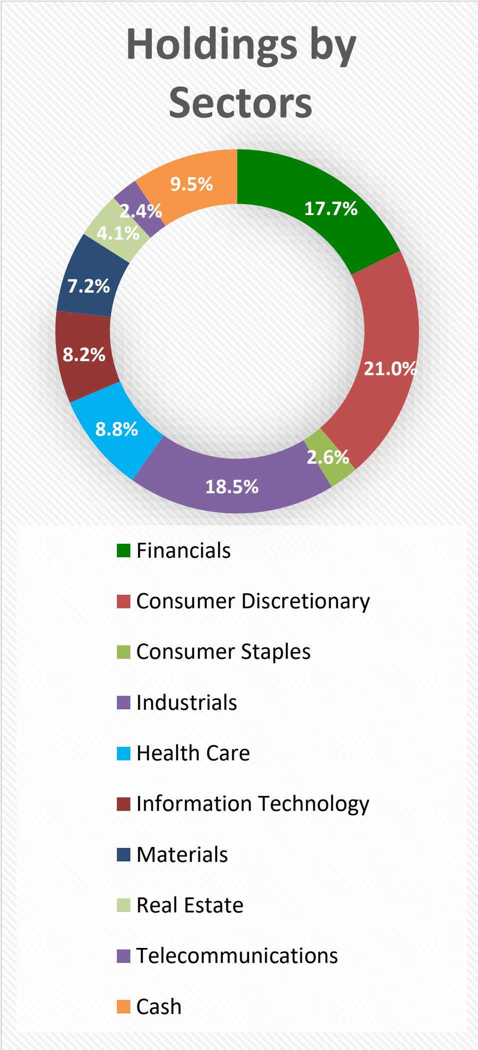
* Fund returns are calculated net of management fees and performance fees assuming all distributions are re-invested. Performance figures have been calculated in accordance with the Financial Services Council (FSC) standards. The returns exclude the benefits of imputation credits. Past performance is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

* The top five holdings make up approximately 23.9% of the portfolio

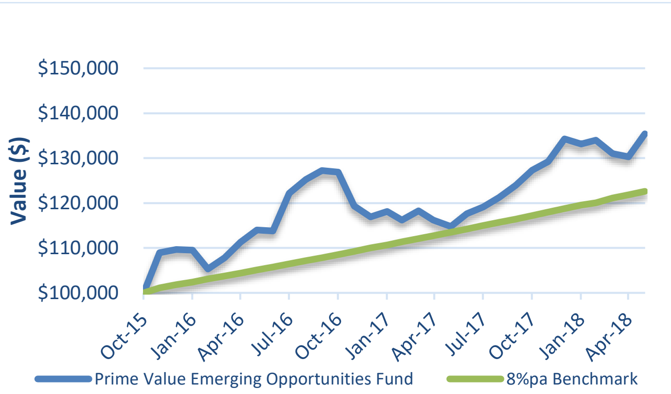
Feature	Fund facts
Portfolio Manager	Richard Ivers
Investment objective	To achieve superior absolute total returns by providing medium to long term capital growth without the constraints of a share market benchmark.
Benchmark	8% p.a.
Inception date	8 October 2015
Typical number of stocks	25-50
Cash	0 - 20%
Unlisted Exposure	0 – 20%
International Exposure	0 – 10%
Distributions	Half-yearly
Recommended investment period	3 + years



Market review

Most equity markets built on the stability seen in April to post small gains in May. Nevertheless, it was a volatile month, and was difficult for Emerging Markets (Index falling -3.8% for the month). Eurozone geopolitical pressures, Argentinian and Turkish economic issues and continued trade policy friction limited share markets gains with selling escalating as some of these came to attention. It was also notable that after a quick rise in bond yields earlier this year, on concerns of inflation rising, they recently retraced due to macro concerns.

The S&P/ASX 200 Accumulation Index rose 1.2% in May, better than most developed economy stock markets. The Healthcare (+5.6%) and Discretionary (+5.1%) sectors were the top performers, although Telecommunications fell 10.2%, exerting a considerable drag on the index. May marked the release of the federal budget, which confirmed the government's commitment to lower corporate and income taxes and increased infrastructure spend. Business indicators continue to paint an upbeat picture with the NAB conditions index rising 6 points to reach a new series high of +21. The Australian dollar was resilient, rising 0.5% to close out the month just below the US76c mark, buoyed by gains in commodity prices.



This graph shows how $100,000 invested at the Fund's Inception has increased to $135,400 (net of fees). This compares very favourably with the return of the benchmark, where a $100,000 investment would have increased to $122,600 over the same period. The returns exclude the benefits of imputation credits.

	Direct Investment
APIR Code	PVA0013AU
Minimum Investment	$20,000
Issue price	$ 1.3491
Withdrawal price	$ 1.3383
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

Fund review & strategy

The Fund posted a 3.9% gain in May, 2.5% above the emerging companies index gain of 1.4%. Key positive contributors to fund performance were **GTN, Pinnacle Investment** and **Axcesstoday.** Key detractors were **Melbourne IT, Freedom Insurance** and **Cogstate.**

GTN performed strongly after we initiated the position in April and increased it in May. GTN's exit from the US created significant shareholder churn and price weakness as high growth investors exited the stock. This was an ideal opportunity as we view the investment risk/return equation as more favourable given the US was essentially a start-up with negative cashflow. Other regions are more established and growing solidly. Pinnacle Investment is benefiting from strong fund growth from existing affiliates while adding new ones with significant growth potential. Combined with strong operating leverage, it's a potent mix to drive earnings growth. Axcesstoday provides secured finance for small businesses. It is growing very strongly with good revenue visibility and trades on low valuation multiples.

There were no major detractors for the month. Melbourne IT was softer after the CEO sold c. 40% of his shareholding. We have been selling and are now fully exited (in June). Freedom Insurance gave up some of April's gains when it made a very attractive acquisition at embedded value with significant upside from future growth. Cogstate drifted lower and announced the departure of a senior executive in the US.

We exited 3P Learning before it announced the disappointing divestment of Learnosity. We established new positions in Specialty Fashion and Wellcom.

Specialty Fashion is a fashion retailer which divested 5 underperforming brands for $31m in May. Its balance sheet is now net cash and it retains City Chic, the best performing retail brand. City Chic has a niche market position, is generating strong growth and sources c. 37% of sales online. On a FY19 PE of 11x yielding 6% it's attractively priced. Having followed the company for many years we were ready to move when the divestment was announced. Wellcom is a marketing company with significantly lower cyclical exposure than most. 70% of revenue is recurring and its software is embedded in client operations making it difficult to remove. The stock is attractively priced with little debt and pays a 5% yield.

Top Contributors (Absolute)	Sector
GTN	Consumer Discretionary
Pinnacle Investment	Financials
Axcesstoday	Financials
Top Detractors (Absolute)	**Sector**
Melbourne IT	IT
Freedom Insurance	Financials
Cogstate	Healthcare

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