Prime Value Emerging Opportunities Fund Update – October 2018

- October was a weak month for equity markets. The Australian share market moved in lock step with offshore markets
- The Emerging Opportunities Fund was down in October but performed significantly better than the relevant indices. The fund was -4.8% for the month which is 6.1% better than the Emerging Companies Index return of -10.9%. We have an absolute return focus & benchmark but are not immune in difficult markets. In this context it was pleasing to limit the downside in a very tough month.

	Total Return*	Benchmark (8% pa)	Value Add
Since Inception (p.a.)	**11.3%**	8.0%	3.3%
2 Years (p.a.)	**4.6%**	8.0%	(3.4%)
1 Year	**9.2%**	8.0%	1.2%
3 Months	**0.0%**	2.0%	(2.0%)
1 Month	**(4.8%)**	0.7%	(5.5%)

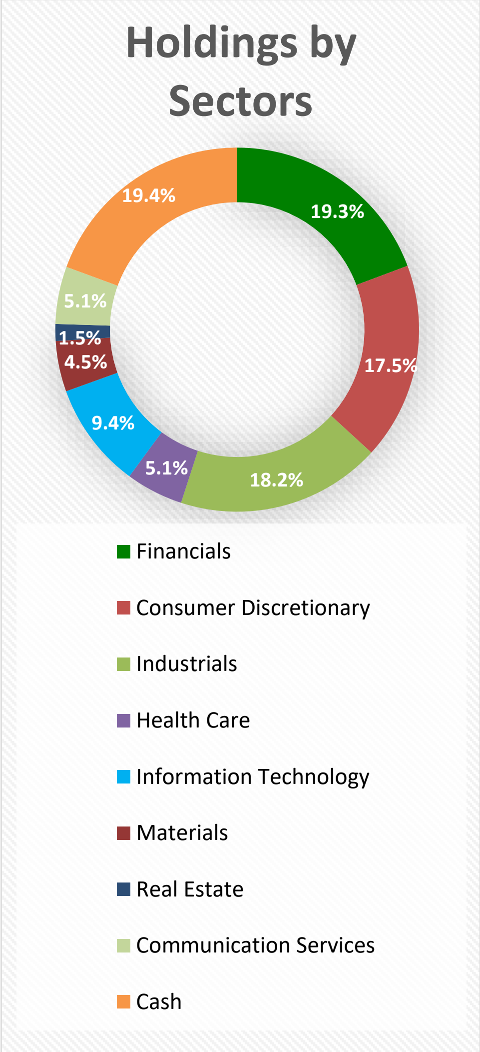
* Fund returns are calculated net of management fees and performance fees assuming all distributions are re-invested. Performance figures have been calculated in accordance with the Financial Services Council (FSC) standards. The returns exclude the benefits of imputation credits. Past performance is 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%)									**(0.8%)**	**38.9%**

Top five holdings	Sector
Scottish Pacific	Financials
GTN	Consumer Discretionary
Wellcom	Industrials
Centuria Capital Group	Financials
Data#3	Information Technology

* The top five holdings make up approximately 20.2 % 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

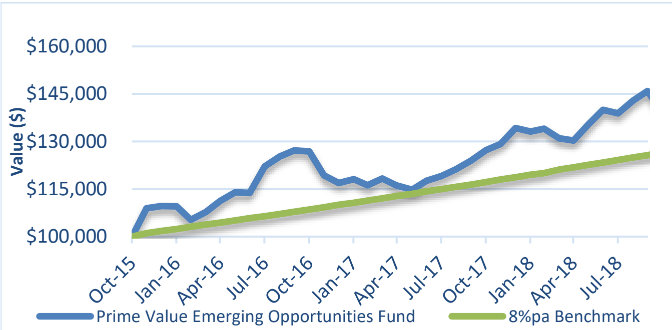


Market review

Global share markets declined, in a difficult month for equities although gains towards the end of the month softened the falls. The Technology sector had the largest falls across all sectors and countries, with Energy not too far behind. The ASX200 Accumulation Index fell 6.1% during the month, in line with the global sell-off, the largest monthly drawdown in over three years. Banks (-132 points) and Resources (-135 points) carried the largest impact to bring the Australian market lower, although Technology was the worst-performing sector. During the month, large caps performed better than small and mid-cap counterparts. The growth sensitive materials, industrials & energy sectors underperformed, while REITs, utilities, consumer staples outperformed. The Australian dollar fell to **$0.709** on US dollar strength.

The IT (-11.2%), health care (-7.0%) and energy sectors (-10.5%) led declines in the Australian market, while the defensive REITs (-3.1%) and utilities (-4.0%) sectors outperformed. The Australian gold sector also outperformed, recording a 21.8% month on month rise, the largest monthly outperformance since June 2016.

With the sell-off, the broader market is now trading in-line with the long term average PE of 14.5x. The Industrials ex Financials multiple continues to trade slightly above the long term average at 19.9x, down from the recent high of 22.2x.



This graph shows how $100,000 invested at the Fund's Inception has increased to $138,900 (net of fees). This compares very favourably with the return of the benchmark, where a $100,000 investment would have increased to $126,600 over the same period. The returns exclude the benefits of imputation credits.

	Direct Investment
APIR Code	PVA0013AU
Minimum Investment	$20,000
Issue price	$ 1.3528
Withdrawal price	$ 1.3420
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

Fund review & strategy

The fund's return was -4.8% in October, 6.1% better than the Emerging Companies index (-10.9%) but below the benchmark of 0.7% (8% p.a.).

In the 6 months since taking over the portfolio management role of this fund the performance has been pleasing. The total return of +6.6% is 20% above the Emerging Companies Index of -13.4% and 2.6% above the benchmark return of 4% (8% p.a.).

Key positive contributors to fund performance in October were **Cogstate** (CGS +21.9%), **Data#3** (DTL +1.4%) and **Scottish Pacific** (SCO +0.2%). Key detractors were **Pinnacle** (PNI -30.6%), **Appen** (APX -23.8%) and **Motorcycle Holdings** (MTO -22.0%).

Cogstate rallied after its AGM and 1Q19 update which highlighted an improving sales pipeline and significant cost-out that should deliver much stronger earnings from 2H19. It provides software and services to large pharmaceutical companies in the measurement of cognitive function. This is typically used with clinical trials for drug development in areas such as Alzheimer's, schizophrenia and depression. These are large, growing markets, uncorrelated to the economic cycle and it benefits from a weak $A. **Scottish Pacific** is subject to takeover and the market price continues to move closer to the offer price ($4.40 cash) as we near deal conclusion. **Data#3** rebounded slightly following a fall in September (after which we purchased the stock).

Negative contributors were typically trading on higher valuation multiples or linked to equity market performance. **Pinnacle** is exposed to both dynamics and also cancelled a listed investment company launch at one of its affiliates during the month. We had been reducing our holding in recent months which helped to limit losses. **Appen** was a higher valuation stock and caught up in the sell-off. We had also reduced our holding in Appen recent months. **Motorcycle Holdings** gave a disappointing update that highlighted continued weakness in motor bike sales which is proving deeper and more prolonged than expected. It is a small holding.

Our cash level is near the maximum allowed (20%) with another 6% in Scottish Pacific which is subject to takeover so in many ways similar to cash. We are using the recent sell-off to buy businesses at lower prices that are not reliant on a strong domestic economy for growth. As always, we are focused on quality businesses with a conservative balance sheet and currently have a preference for dividend payers.

During the month new positions were established in **Infomedia** (IFM), **Baby Bunting** (BBN) and **Decmil** (DCG). We exited small positions in **MNF Group** (MNF) and **Southern Cross Electrical** (SXE).

Top Contributors (Absolute)	Sector
Cogstate	Healthcare
Data#3	Information Technology
Scottish Pacific	Financials
Top Detractors (Absolute)	**Sector**
Pinnacle Investments	Financials
Appen	Information Technology
Motorcycle Holdings	Consumer Discretionary

Contact details:

Brittany Shazell, Dora Grieve, Julie Abbott & Serena Shi.
Client Services Team
Phone: 03 9098 8088
Fax: 03 9098 8099
Email: info@primevalue.com.au
Web: www.primevalue.com.au

Mail:

Prime Value Asset Management Ltd
Level 9, 34 Queen Street
Melbourne VIC 3000