# Prime Value Emerging Opportunities Fund Update – September 2018

- Major share markets were mixed during the month. The Australian share market was a notable laggard with a number of major sectors weaker
- The Emerging Opportunities Fund had a good month in September, rising 2.1%, which is 2.2% above the Emerging Companies Index return of -0.1% and 1.5% above its benchmark of 0.6% (8% p.a.)
- With a relatively high cash level (18%), we are well positioned to take advantage of market weakness and are focused on quality companies which can generate consistent earnings growth over the long term.

| | Total Return* | Benchmark (8% pa) | Value Add |
|---|---|---|---|
| Since Inception (p.a.) | **13.5%** | 8.0% | 5.5% |
| 2 Years (p.a.) | **7.1%** | 8.0% | (0.9%) |
| 1 Year | **17.7%** | 8.0% | 9.7% |
| 3 Months | **4.2%** | 1.9% | 2.3% |
| 1 Month | **2.1%** | 0.6% | 1.5% |

* 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.

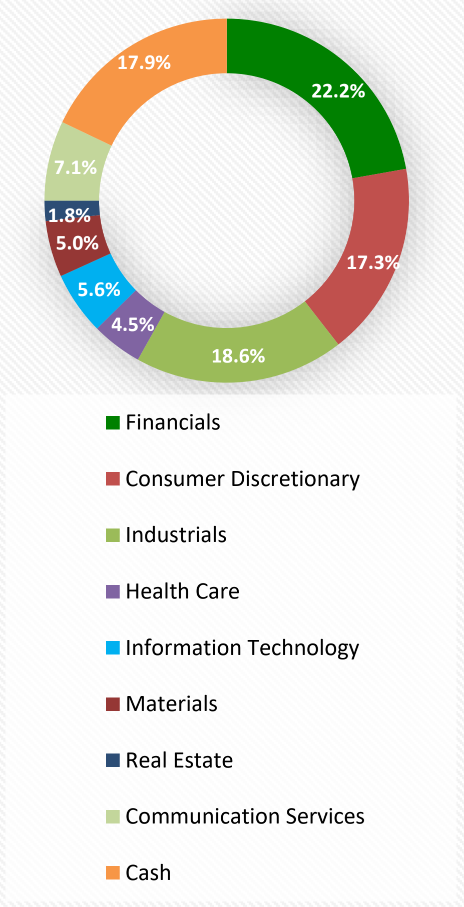
| | Jul | Aug | Sep | Oct | Nov | Dec | Jan | Feb | Mar | Apr | May | Jun | FYTD | ITD |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| FY 2015 | | | | | 6.3% | 0.7% | (0.2%) | (3.9%) | 2.4% | 3.3% | 2.4% | (0.2%) | **13.8%** | **13.8%** |
| FY 2016 | 7.4% | 2.5% | 1.6% | (0.3%) | (6.0%) | (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% | | | | | | | | | | **4.2%** | **45.9%** |

| Top five holdings | Sector |
|---|---|
| Scottish Pacific | Financials |
| GTN | Consumer Discretionary |
| Pinnacle Investment Management Group | Financials |
| Wellcom | Industrials |
| Alliance Aviation Services | Industrials |

* The top five holdings make up approximately 22.7 % 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 |

## Holdings by Sectors

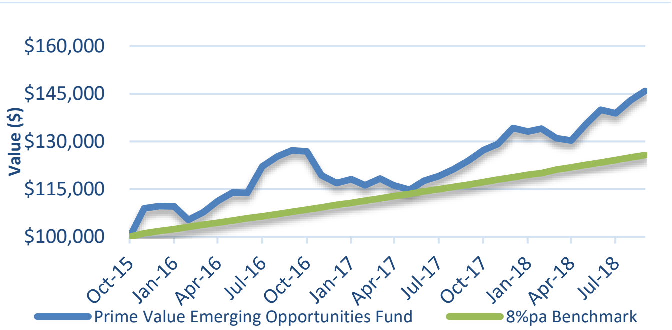


## Market review

Global equity markets were mostly positive in September, with the US S&P 500 (+0.4%) reaching fresh highs and Chinese shares (Shanghai Composite +3.4%) outperforming, while European markets (Stoxx 600 -0.6%) were mixed. Key market events included additional US tariffs on Chinese imports, followed by retaliatory action. Chinese authorities also announced stimulus measures to offset emerging weakness in the economy.

As was generally expected, the US Federal Reserve increased interest rates by 25 basis points and the yield on the US 10-year bond rose 20 basis points to 3.06%, a 7-year high. Australian bonds were also weaker, with the 10 year yield rising 15bp to 2.67%. In commodity markets, oil rose 4.9% in anticipation of sanctions against Iran which will reduce global oil production. Iron ore (+3.7%) and copper (+4.7%) were also stronger. The Australian dollar rose 0.4% to US$ 0.7218 over the month.

The Australian market (ASX200 -1.8%) was one of the worst performers, with the increases in the Energy (+4.0%) and Materials (+2.7%) sectors more than offset by falls in the Healthcare (-8.4%) and Consumer Discretionary (-4.7%) sectors. The banks (-1.9%) continued to come under pressure amidst the ongoing Royal Commission and softening property prices. Small companies (-0.9%) continued to outperform the Top 50 companies (-1.9%).




This graph shows how $100,000 invested at the Fund's Inception has increased to $145,900 (net of fees). This compares very favourably with the return of the benchmark, where a $100,000 investment would have increased to $125,700 over the same period. The returns exclude the benefits of imputation credits.

| | Direct Investment |
|---|---|
| APIR Code | PVA0013AU |
| Minimum Investment | $20,000 |
| Issue price | $ 1.4092 |
| Withdrawal price | $ 1.3980 |
| 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 rose 2.1% in September, 2.2% above the Emerging Companies index (-0.1%) and 1.5% above the benchmark return of 0.6% (8% p.a.). Key positive contributors to fund performance in September were **Scottish Pacific** (SCO +22.4%), **GTN** (GTN 14.5%) and **Pinnacle** (PNI +8.6%). Key detractors were **Shine** (SHJ -6.7%), **Axsesstoday** (AXL -11.3%) and **Appen** (APX -8.6%).

**Scottish Pacific** rallied after a strong financial result in late August and then received a takeover offer in late September at an 18% premium to the prevailing price. The takeover offer looks likely to succeed, given the terms and the board's unanimous recommendation. With a higher offer unlikely, we will progressively exit the position. While positive for short term returns, we are disappointed to lose a core investment expected to deliver consistent, long term returns. **GTN** rebounded after a shareholder divested its 40% stake to a range of institutions, thereby removing an overhang. We highlighted this likely event last month and participated in the sell down at the attractive price of $1.90. **Pinnacle** continues to rally for reasons we have written about several times recently (new affiliates, fund flow and operating leverage). The stock clearly has momentum but the position was becoming too large and we lightened our holding in late September for risk management purposes.

There were no major negative contributors for the month. **Shine** fell after its earnings announcement in late August. The result itself was in-line but FY19 guidance of "modest" earnings growth was considered disappointing. We take a different view and increased our holding. Underlying growth remains solid, cashflow is improving, earnings are uncorrelated to the economic cycle, valuation is attractive and a significant positive catalyst is likely in FY19 (Mesh settlement). **Axsesstoday** fell after its FY18 result. More concerning was the stock being suspended from trading for a "strategic review" just 2 weeks after a strong result and outlook statement. It's a relatively small holding (c. 2%) but may drag somewhat on October performance. **Appen** seems to feature most months on either the positive or negative side. This month it's the negative side but the trend is positive and it's not a large holding (c. 2.5%).

During the month we exited a number of small positions in **Service Stream** (SSM), **BWX** (BWX), **Wingara** (WNR), **PS&C** (PSZ) and **Salmat** (SLM). New positions were established in **EQT Holdings** (EQT), **Spicers** (SRS), **Data#3** (DTL) and **Lindsay** (LAU).

| Top Contributors (Absolute) | Sector |
|---|---|
| Scottish Pacific | Materials |
| GTN | Consumer Discretionary |
| Pinnacle Investments | Financials |
| **Top Detractors (Absolute)** | **Sector** |
| Shine | Consumer Discretionary |
| Axcesstoday | Financials |
| Appen | Information Technology |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