Fairview Equity Partners
Monthly Combined Investment Report

28 February 2017

FAIRVIEW
EQUITY PARTNERS

Emerging Companies Fund

Fairview Equity Partners is a smaller company Australian equities manager. The Fairview Equity Partners Emerging Companies Fund seeks to provide capital growth and some income by outperforming the S&P/ASX Small Ordinaries Accumulation Index over the medium to long term.

Performance Return

Period ending 28 February 2017	1 Month	3 Months	1 Year	3 Years p.a.	5 Years p.a.	Since inception#
Fairview Emerging Companies Fund*	0.88%	-0.46%	5.32%	5.51%	9.17%	14.63%
S&P/ASX Small Ordinaries Accumulation Index	1.31%	2.40%	16.78%	5.11%	1.78%	4.07%
Excess Return*	**-0.43%**	**-2.86%**	**-11.46%**	**0.40%**	**7.39%**	**10.56%**
Net Fund Return (after fees & expenses)	0.79%	-0.72%	4.07%	3.38%	6.05%	11.13%

** Returns shown are gross at a manager level (pre fees).*
 # Returns over 1 year are annualised. Fund incepted 8 October 2008.
Past performance is not a reliable indicator of future performance.

Performance and Market Outlook

The small ordinaries index was up 1.3% in the month of February. This month is always dominated by the interim reporting season. In a pleasant variation to recent reporting seasons, more companies provided positive outlook statements than downgrades. On a sectoral basis, small industrials outperformed resources, where the first cracks in iron ore pricing appeared. Discounts for low iron content, high impurity ore gapped down in the month, from a small 2% at the start of the month to in some cases a staggering 48% discount. Consumer discretionary stocks were also under pressure, especially Ardent Leisure, whilst consumer staples such as Tassal and Costa generated new investor interest.

Investors in small caps are generally well rewarded for stocks that provided positive outlook comments. We were fortunate that our biggest holdings came through the period in good shape. Fairview was outperforming until the last afternoon of February trading. Alas not owning Worley Parsons (looks like a bid by DAR Group) with its very large index weight and some forced selling by a small cap competitor with some similar stock holdings dropped our relative performance 80 points in less than 2 hours. We have quickly regained this afternoon deficit, and some more, in March so far.

Performance Attribution

We highlight below the largest positive and negative relative performance contributors during February 2017.

Positive Contributors	Negative Contributors
IDP Education	Eureka
Mayne Pharma	Sundance Energy
Costa	RCG
Corporate Travel Management	Nearmap
Orocobre	iSentia

Contributors

IDP Education IDP surpassed market expectations with a 5% beat at the EBITDA line. This was in spite of the Indian PM withdrawing high value bank notes from circulation that limited IELTS (English language proficiency) testing revenues in that core market. We are tremendously excited by the growth potential of IDP's multi destination student placements business and consider that we still have insight as the market over focuses on IELTS in the short term. **Mayne Pharma** is a most welcome return to Fairview's best contributors stable. Mayne Pharma reported a result well above market expectations. The company beat consensus by 12% at the gross margin line, the key line to focus on for a generic drug company. We consider there is still 5 to 10% upside to upgraded analyst's forecasts for the full year. **Costa,** Australia biggest berry producer upgraded full year guidance (again) by another 10% and climbed 80c to close at $4.07 for the month. For those who think Costa is expensive we have one word to say, blackberries. Within five years this berry categories could be bigger than raspberries to Costa in terms of profit contribution. Fairview representatives were lucky enough to taste soon to marketed blackberry varieties on a recent Costa trip to Tasmania. They are stunningly tasty and like nothing on the shelves today. Costa is very thinly covered by brokers, and those that do, have not quantified the blackberry opportunity. **Corporate Travel Management,** Jamie Pherous and his team really punished the short sellers by posting a result that demonstrated good cash flow (104% conversion) as well as 45% underlying EBITDA growth. Whilst this stock has been in our portfolio for some time, our insight is still founded upon great organic growth opportunities. A free option due to the loyalty initiative has also surfaced. Over the long term, if this works, this is a natural spin out and a true shareholder value creator in the making. **Orocobre**. Is not held by Fairview, we struggle to place high value on lithium stocks as, to us, there seems to be an inventory build developing and the high prices seen in 2016 could fall substantially.

Detractors

Eureka, this cheap and cheerful retirement industry consolidator is a small portfolio position that failed to deliver for our unit holders in February. Asset revaluations hid the underlying performance which was below market. Revenues lagged expectations due to a lower number of acquisitions during the period. **Sundance Energy,** fell after rallying hard in January as some short term troubles with shale oil well reworks meant this stock missed its quarterly production targets. **RCG,** the nation's biggest footwear chain reported good results for the six month to December 2016. Alas outlook comments were muted from this very experienced management team, who stated that trading conditions deteriorated dramatically post-Christmas. We have a lengthy meeting with management scheduled this week and will review our position size after those discussions. **Isentia** was our most disappointing stock in the reporting season as our thesis was invalidated by very poor prior period comps both domestically and in Asia. We have now exited from this stock. **Nearmap** A beautiful to behold 25% lift to annual contract value (think of it as next year's revenue) from Australia and stunning growth in the US, albeit off a very small base, were not enough for the market so the stock was sold down. We attribute this to an intensive investor education campaign from a start-up competitor aptly named Spookfish and the residual impact from a particularly poorly advised share issue late last year. The only factor stopping us buying more Nearmap is Fairview's aversion to becoming a substantial shareholder in any stock.

Top Ten Holdings

We highlight below our top ten holdings within the portfolio, in alphabetical order:

Bapcor Ltd	IDP Education Ltd
Charter Hall Group	Mayne Pharma Group Ltd
Corporate Travel Management Ltd	Regis Resources Ltd
Costa Group Holding Ltd	Sandfire Resources Ltd
Credit Corp Group Ltd	Webjet Ltd

Number of stock holdings as of 28 February 2017	**57**

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