Fairview Equity Partners
Monthly Combined Investment Report

30 November 2016

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 30 November 2016	1 Month	3 Months	1 Year	3 Years p.a.	5 Years p.a.	Since inception#
Fairview Emerging Companies Fund*	-5.62	-10.89	1.05	7.94	12.58	15.17
S&P/ASX Small Ordinaries Accumulation Index	-1.19	-4.41	13.52	5.88	3.22	3.89
Excess Return*	**-4.43**	**-6.48**	**-12.47**	**2.06**	**9.36**	**11.28**
Net Fund Return (after fees & expenses)	-5.67	-11.07	-0.22	5.65	9.11	11.60

** 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.

The S&P/ASX Small Ordinaries Accumulation Index was broadly stable as an aggregate for the month, closing down 1.2%. The Fund significantly underperformed the Index for the month of November and now sits below its benchmark on a rolling 12 month basis which is disappointing. We do highlight that the Fund has provided solid absolute returns across most longer time periods and has outperformed its benchmark strongly and consistently since its inception. We certainly remain confident that with a strong, proven and unchanged investment process, and an experienced, well resourced and aligned investment team, that the Fund will continue its track record of delivering strong absolute and relative returns to investors over the medium term.

Market Commentary

Global equity markets were mixed over the month, with the UK lower, Europe broadly flat but the US up solidly. The surprise election victory in the US, and the seemingly clearer path for legislative change through the houses, has been seen as a precursor to stronger levels of investment within and growth from the US economy. As we have seen over the journey, sentiment is rarely constant and we would expect the mood of the investment market to remain somewhat volatile as the reality of data catches up with what is currently merely speculation.

The broadly stable S&P/ASX Small Ordinaries Accumulation Index compared to the prior month belied the significant dispersion and intra month volatility with respect to individual stocks. Annual General Meeting Commentary and associated nearer term earnings commentary was the primary driver of news flow and share price performance. Within the Small Industrials Index, negative revisions to F.17 earnings by broking analysts over the past month have outnumbered positive adjustments to expectations by around 30%. There were some savage share price reactions to downgraded guidance as part of AGM commentary, in many cases significantly greater than the magnitude of any earnings revisions (ie. de rating of earnings based multiple for those companies). A number of companies are indicating a skew to the second half in order to meet earnings guidance, implying continued risks to the downside leading into the February reporting season. This remains an area to monitor.

The smaller companies segment lagged the broader market, with the S&P/ASX 100 Index rising +3.3% for the month, buoyed by a reasonable reporting season for the major banks and solid gains for the large miners. Within the smaller companies segment, Smaller Resources (-1.6%) performed broadly in line with the Small Industrials (-1.1%), with underperformance of gold stocks offsetting those stocks buoyed by higher base metal and bulk commodity prices. The smaller industrials segment is where negative AGM related revisions were concentrated.

The dispersion between better and poorer performing stocks across the Australian smaller companies universe in the month was significant. Whilst AGM commentary was the primary driver of out or under performance, the rise in base metal and bulk commodity prices aided resources more broadly, whilst an increase in Australian bond yields negatively impacted the bond proxies such as REITS, infrastructure and utilities vehicles. A2 Milk (A2M) rose +36% following strong YTD trading commentary as part of its AGM. Sims Metals (SGM, +25%) benefited from expectations around higher scrap prices given recent strength in coking coal and iron ore prices and implications for the input costs of pig iron steel producers. Galaxy Resources (GXY) traded +23% as construction for its Mt Caitlan lithium project nears completion and ore commissioning looks set to be slightly ahead of schedule. Austal (ASB) was +23% for the month, buoyed by sentiment surround the Trump election victory, and expectations around an increased US commitment to defence. On the downside, CSG Group (CSV) was -45% lower after moderating F.17 EBITDA guidance by ~13%. Paladin Energy (PDN, -52%) was negatively impacted by delays in the potential US$175m sale of its 24% interest in the Langer Heinrich Mine and implications around alternate funding requirements, whilst Adairs (ADH) trade -35% lower after lowering F.17 EBIT expectations to a ~15% decline on p.c.p., on the back of flat LFL sales growth after misinterpreting recent changes in bed linen fashion trends.

The S&P/ASX Small Industrials segment is currently trading on 16x F.17 earnings expectations, this movement from levels approaching 17x a few months ago reflecting a combination of both earnings revisions and a pullback in market share prices. As previously highlighted, shorter term market volatility can be somewhat indiscriminate in nature and present opportunities for patient investors.

Performance Attribution

We highlight below the largest positive and negative relative performance contributors during November 2016.

Positive Contributors		Negative Contributors	
Costa Group	Overweight	Vita Group	Overweight
Evolution Mining	Nil Holding	Scottish Pacific	Overweight
Magellan Financial	Overweight	Adairs	Overweight
APN Outdoor	Overweight	Regis Resources	Overweight
Sandfire Resources	Overweight	Vocus Communications	Overweight

Contributors

Costa Group (CGC) upgraded its earnings guidance as part of its recent AGM, lifting expectations for the current year to at least 15% NPAT growth, from prior guidance of approximately 10% growth. **Evolution Mining (EVN)** traded lower during the month, with gold prices retracing. Given our nil holding this benefitted our returns relative to the Index. **Magellan Financial (MFG)** was buoyed by an improved US equity market performance and continued solid fund flows. After lowering its full year to December earnings expectations back in August on the back of some weakness associated with the extended Federal election and the Olympics, and reduced forward bookings, **APN Outdoor (APO)** updated the market. It noted that it had seen a solid recent recovery in both media revenues and bookings, and subsequently upwardly revised its calendar 2016 earnings guidance. **Sandfire Resources (SFR)** benefited from the recent strength across most base metal commodity prices, including copper.

Detractors

Vita Group (VTG) traded significantly lower on the back of uncertainty surrounding its earlier acknowledgement that it was involved in renegotiations with Telstra around its remuneration structure for various products. In subsequent releases VTG has announced that discussions have concluded and that there will be some changes to some elements of the remuneration structure, whilst it is also likely that VTG will take on additional outlets. VTG have been vague in terms of the likely net outcome, so the market has not unreasonably assumed a net negative impact. **Scottish Pacific (SCO)** provided us with a negative update, that some major customers had pulled back their borrowings in recent months such that funding growth was tracking below expectations, forcing a negative revision to Prospectus year earnings forecasts in the order of 9%. **Adairs (ADH)** provided a disappointing AGM update in which it noted that the net effect of miscalculating a shift in fashion trends around bed linen had seen LFL growth for the year to date flat (and down significantly in the relevant category), which combined with associated margin impacts around discounting would likely see F.17 EBIT 15% below the prior year period. With improved sentiment around future growth out of the US post the recent election, gold prices tracked lower over the past month with **Regis Resources (RRL)** trading commensurately weaker. **Aconex (ACX)** continued to weaken over the month. As part of its late October AGM the company highlighted a continued strong outlook for revenue and EBITDA growth, and offered an explanation as to why a shift post IPO away from offering customers discounted upfront payment terms, combined with increase in enterprise agreements, has seen some shift in cash conversion relative to earnings. It would appear that the November retirement of the CFO has reignited concerns across some segments of the market around the implications of this perceived deterioration in earnings quality. We remain comfortable that this represents a transition only, and one which through increasing the visibility of this annuity style income ultimately improves the quality of this earnings stream.

Top Ten Holdings

We highlight below our top ten holdings within the portfolio, in alphabetical order (by period end weight):

Bapcor	Magellan Financial Group
Costa Group	Mayne Pharma Group
Corporate Travel Management	Nanosonics
IDP Education	Regis Resources
Link Administration Holdings	Webjet

Number of stock holdings as of 30 November	**57**

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