Fairview Equity Partners Quarterly Combined Investment Report

31 March 2016

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.

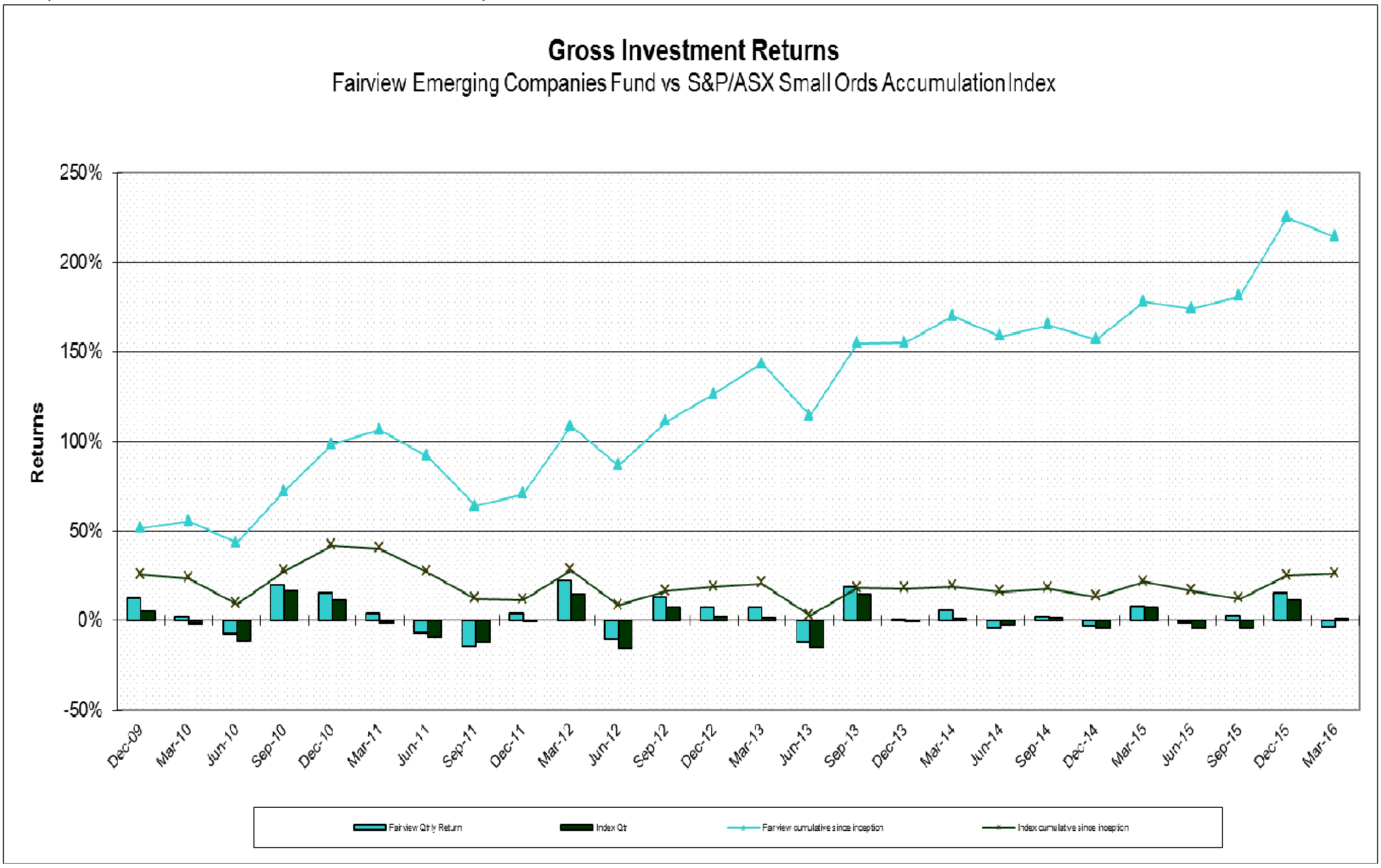
Performance Return

Period ending 31 March 2016	1 Month	3 Months	1 Year	3 Years p.a.	5 Years p.a.	Since inception#
Fairview Emerging Companies Fund*	5.31%	-3.27%	13.10%	8.90%	8.80%	16.56%
S&P/ASX Small Ordinaries Accumulation Index	5.47%	1.03%	3.72%	1.50%	-2.08%	3.16%
Excess Return*	**-0.16%**	**-4.30%**	**9.38%**	**7.40%**	**10.88%**	**13.40%**
Net Fund Return (after fees & expenses)	5.18%	-3.54%	9.29%	6.14%	5.42%	12.75%

** Returns shown are gross of fees 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.



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Performance and Market Outlook

The March quarter was a humbling experience for most active small cap managers. Alas Fairview was caught up in the turmoil and our performance was very disappointing over the quarter. A short term rise in the Iron ore prices prompted a rapid resources rally. However with some large BHP Iron ore mines at a cash cost of half of that of junior miners, we question the sustainability of this bounce. This resources rally also pushed the AUD higher, penalising the small cap companies which source a large component of their earnings offshore. Generally such names have traded at Pricing to Earning premiums due to geographic diversity. The market then sold quality names off, initially selectively but towards the end of the period in a wholesale fashion. Whilst the fund has underperformed over the March quarter, the Fairview investment process has seen the fund outperform in 26 of the last 30 quarters.

We expect to witness a period of consumer uncertainty over the next few months. There is definite nervousness regarding Federal political leadership. Electors have kept their wallets in their pockets during almost all recent Federal election campaigns and the upcoming event has all the signs of being drawn-out and closely fought. Various resource companies will take advantage of the recent rally and raise equity. This trend has already started with Western Areas Limited, other obvious candidates include Independence Group (which we very recently exited) and St Barbara.

We believe the next three to nine months could see great divergence between investor returns accrued from large listed companies versus their smaller peers. The large stocks relative dominance from 2011 until 2015 was dramatic. The yield trade, which had worked so successfully for large cap investors since 2011, has now run its course. This slowdown is starkly demonstrated by modest forecast earnings growth of 0.8% for the ASX top 50 stock for the calendar year to December 2016. Large cap institutional investors will be placing pressure on the management teams of these lumbering listed behemoths to achieve earnings growth. In contrast the small industrials index is forecast to punch out 9.3% earnings growth for the same period. The key difference is that many of these small cap industrials are operating within niche markets, growing from an immature base, or have other growth options available which aren't intrinsically linked to broader economic growth. The most obvious way for these larger cap companies to pro-actively drive higher levels of earnings growth is through M&A, in many instances through acquiring smaller businesses.

IPO Build-Up

There were few IPOs in the March quarter, market volatility being the key impediment. A key lesson we have learnt is that businesses presented to institutional investors by private equity owners are primed for a great first year as listed entities. Often those companies' fortunes can fall apart in year two. Classic recent IPO examples include; 3PL, which dropped its founder and managing director, at the same time as raising its cost projections. MYOB appears to be in harvest mode whilst its major competitor is voraciously gobbling up market share. This harvesting is unsustainable. Cover-More was sold to investors as a capital-lite travel insurance business with a water tight model around financial risk and earnings volatility. Unfortunately, protracted negotiations with its reinsurer have negatively impacted performance. OFX, formerly the Ozforex Group Ltd., suffered downgrades and management ructions.

Even with the difficulties these companies faced, there is still a wall of IPOs coming to the market. Over the past seven years, Fairview has, on average, invested in about one third of IPOs offered to us.

Performance Attribution

We highlight below the largest positive and negative relative performance contributors during the month ended March 2016.

Positive contributors		Negative contributors	
Aconex	Overweight	Premier Investments	Not Held
Mayne Pharma Group	Overweight	Freelancer	Overweight
Northern Star Resources	Not Held	Sigma Pharmaceuticals	Not Held
Evolution Mining	Not Held	Dominos Pizza	Overweight
Sundance Energy Australia	Overweight	Sirtex Medical Limited	Overweight

Contributors

Aconex had a very proactive and rewarding March 2016. An enterprise agreement with Fluor and the purchase of a major European competitor, Conject, continued this company's outperformance. Mayne Pharma Group had a thoroughly deserved bounce in March as the market digested February's great result. Northern Star Resources and Evolution Mining are gold M&A roll ups, we do not like this style of resource stock and prefer growth to be found through the drill bit as per Regis and Gold Road. Sundance Energy Australia is perhaps the most volatile oil stock we own, it is also the only oil stock we own. It is a low cost onshore unconventional US based producer. It bounced hard with the oil price rally.

Detractors

Sirtex Medical suffered currency related earnings downgrades. Sirtex earns 94% of its profit offshore. Some analysts also said dose growth is slowing, we think these naysayers are too short-term in their time horizon. Premier Investments; we don't own this stock, as Smiggle grows offshore, we sometimes wish we did. Freelancer; nothing wrong here, still punching out 40%+ revenue growth per annum, the market was infatuated with a rising Australian dollar, hence Freelancer was sold down. Sigma Pharmaceuticals; a safe haven during March combined with an OK result sent it upwards. We respect management, like Sigma's position in the pharmaceutical wholesaling industry but struggle to see any real growth. Dominos Pizza Enterprises suffered from PE de-rating of high quality businesses and gave back some of its more recent outperformance.

Number of stock holdings as of 31 Mar 2016	59

Major Stock Additions

Link Administration Holdings

Link Administration Holdings is a stable, well managed administration business with clearly identifiable growth levers including M&A. We believe margins should increase above low consensus expectations due to the scale benefits from the recent Super Partners integration.

RCG Corporation

RCG Corporation also has potential for above consensus earnings growth. The interim result strongly pointed to future upgrades with strong like for like sales growth. We expect strong performance once the market has digested the recent capital raising and as likely upgrades to conservative guidance become apparent.

A.P Eagers Limited

A.P Eagers Limited is a stock we have been watching for a couple of years. Once we crystallised our thoughts as to its investment merits we initiated a position. Liquidity levels in the stock are the limiting factor on the position size within our fund.

Major Stock Disposals

McMillan Shakespeare

McMillian Shakespeare was sold as we became increasingly concerned about McMillan's Queensland government contract being renegotiated. There is only down side for McMillan out of this as the lucrative novated leasing contracts are still to be announced. If Queensland follows the New South Wales lead we would expect a panel to be announced which could see McMillan lose up to 80% of its current market share for this significant customer.

Cover-More Group

Cover-More Group was very disappointing. Thankfully we exited a majority of our position before the very poor trading update and sold the remnant after follow up management meetings.

Lovisa Holdings

Their weak January trading update caught us out and highlighted higher than expected volatility in margins, and we sold due to an invalidated investment thesis.

McGrath Holdings

We took a very small position in this stock at the time of IPO however quickly lost confidence in the strength of our investment case and exited the name.

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