Fairview Equity Partners
Monthly Combined Investment Report

31 May 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 May 2016	1 Month	3 Months	1 Year	3 Years p.a.	5 Years p.a.	Since inception
Fairview Emerging Companies Fund*	4.46%	11.95%	15.92%	14.00%	10.69%	17.10%
S&P/ASX Small Ordinaries Accumulation Index	4.09%	13.12%	6.91%	6.93%	0.21%	4.04%
Excess Return*	**0.37%**	**-1.17%**	**9.01%**	**7.06%**	**10.48%**	**13.06%**
Net Fund Return (after fees & expenses)	4.32%	11.54%	11.96%	11.17%	7.34%	13.32%

** 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.

Performance and Market Outlook

The Small Ordinaries Accumulation Index was up strongly during the month of May, rising +4.1%. Pleasingly, the Fund not only kept pace with this strong performance but delivered some modest outperformance.

Following a prior month where the Small Resources rallied strongly (+16.3% versus +0.5% for the Small Industrials), during May it was the Small Industrials (+4.8%) which rose strongest (Small Resources +0.8%). Calendar YTD the Small Resources have driven the largest gains (+37.5% versus Small Industrials +4.2%), presenting challenges for funds underweight the resources space. Whilst under our core approach we are exposed to resources, our relatively modest holdings (circa ~6% of the portfolio) are primarily focussed upon lower cost, higher quality operators which typically benefit less in periods of sharp rallies.

The RBA again reduced official cash rates during May, to historic lows of 1.75%. There is increasing market resignation that this sword has two edges, and that this instrument is not simply being used to stimulate but also for risk containment. Further monetary policy easing from already low levels is instructive of the immediate outlook for inflation and economic growth, which are the stronger drivers for earnings growth, relative to an initial and likely temporary sugar hit to the consumer from lower rates. The ~15% of the population aged over 65 years are also unlikely to be cheering further reductions in term deposits and fixed income yields, with likely negative consequences to consumption from this segment of the market.

Combining the above with a May budget containing limited pork barrelling, and a likely close Federal election (the half full glass says that it will be over soon, and policy differences between parties aren't overly material), and we are unlikely to see either consumption or investment spending race away any time soon. This again brings us back to the importance of the smaller cap segment of the market, where less mature businesses, those taking market share within respective niches, and/or those expanding through footprint growth or consolidation will provide capacity for earnings growth materially exceeding broader economic growth.

Performance Attribution

We highlight below the largest positive and negative relative performance contributors during the month of May 2016.

Positive contributors		Negative contributors	
Mayne Pharma Group Limited	Overweight	SurfStitch Group Ltd.	Overweight
Magellan Financial Group	Overweight	Beacon Lighting Group	Overweight
SIMS Metal Management	Not Held	Aconex	Overweight
SG Fleet Group	Overweight	Infigen Energy	Not Held
Webjet	Overweight	SpeedCast International	Overweight

Contributors

Mayne Pharma (+14.0%) rose following US FDA approval of next generation Doryx tablets (a likely franchise product). Magellan (+14.8%) was aided by positive FUM growth and a ~5% moderation in the AUD / USD. SIMS Metal (-13.8%) aided our relative performance, the stock pulling back following a strong recent rally. SG Fleet (+15.4%) traded higher, the Budget reaffirming some clear air in terms of immediate regulatory risk, whilst Webjet (+9.4%) provided a trading update which highlighted a continuation of strong operating trends, with second half of the fiscal year's total transaction value growth of 28% consistent with the first half. Post month end WEB also announced a strongly accretive acquisition and attractively priced entitlement based capital raising.

Detractors

Whilst having reduced our initial exposure some time ago, Surfstitch (-54.3%) continued to humble us, downgrading its F.16 earnings expectations. We have now exited our residual holding, a confluence of events (shift in business model, multiple earnings downgrades, surprise departure of CEO, and most recently a confusing change in accounting treatment) rendering the company sub institutional investment grade in our view. Beacon Lighting (-26.9%) provided a negative trading update, with H.2 LFL sales growth below management and market expectations at +4.6% on p.c.p. Aconex (-3.1%) retraced from recent highs, with the stock +30% since the end of Feb following a strong interim result and accretive acquisition.Infigen Energy was +50.0%, press reports speculating that IFN is seeking formal expressions of interest for a partner / purchaser for the business, and with increased interest in the renewable energy space. Lastly, SpeedCast (-13.3%) declined on the back of AGM comments reiterating some headwinds from the oil and gas operating environment upon its business.

Number of stock holdings as of 31 May 2016	**57**

Contacts

Website
www.fairviewequity.com.au

Email
info@nabam.com.au

Client Services
1300 738 355

Adviser Services
Please contact your NAB Asset Management Investment Specialist.