

# Fairview Equity Partners Quarterly Investment Report June 2014



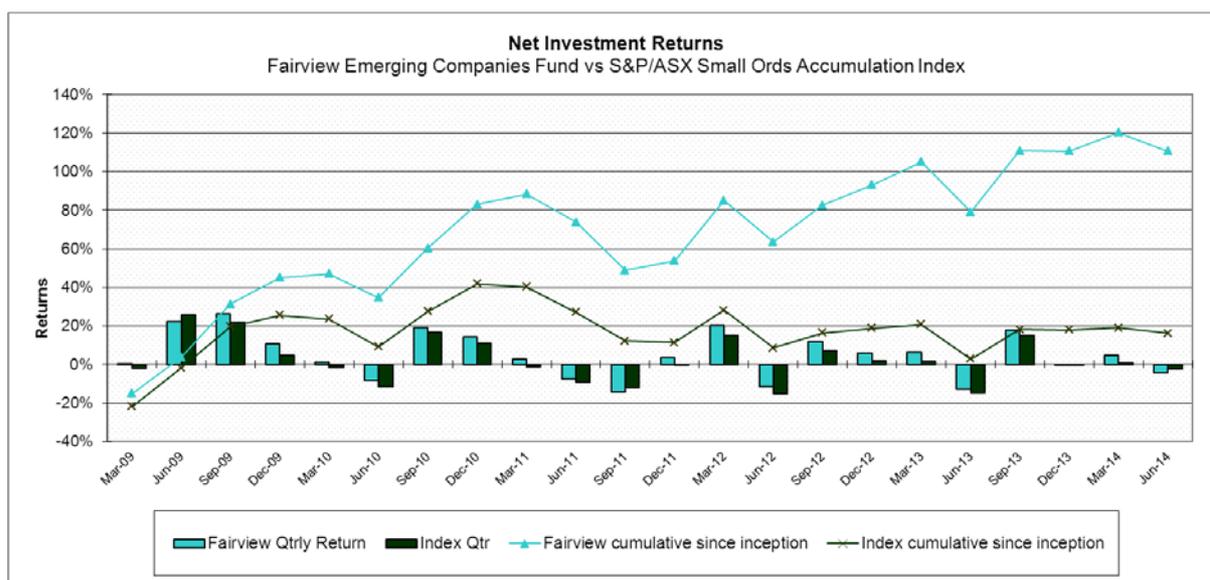
## Emerging Companies Fund

Fairview Equity Partners is a smaller company Australian equities manager. The Fairview Equity Partners Emerging Companies Fund aims to provide long term capital growth and some income by investing primarily in a diverse portfolio of smaller companies listed, or expected to be listed, on the Australian Securities Exchange. The Fund aims to earn a return (after fees and expenses) which exceeds the S&P/ASX Small Ordinaries Accumulation Index (Benchmark).

## Performance Return

Period ending 30 June 2014	3 Months	1 Year	3 Years <sup>#</sup>	5 Years <sup>#</sup>	Since inception <sup>#</sup>
Fairview Emerging Companies Fund*	-4.12%	20.79%	10.52%	19.48%	18.07%
S&P/ASX Small Ordinaries Accumulation Index	-2.26%	13.11%	-2.94%	3.43%	2.66%
<b>Excess Return*</b>	<b>-1.86%</b>	<b>7.68%</b>	<b>13.46%</b>	<b>16.05%</b>	<b>15.41%</b>
Net Fund Return (after fees & expenses)	-4.37%	17.73%	6.62%	15.18%	13.90%

\* Returns shown are gross of fees (including management and performance fees) but before tax  
# Returns over 1 year are annualised. Fund inception 8 October 2008



Return and Index for Quarter ending Dec 2008 not shown as only a part period, but included in cumulative return series.

## Market Outlook

After a strong March quarter the fund then produced a return that was below the benchmark. There were no obvious sectoral themes behind this and even with our core approach we do not expect to out-perform in every quarter. We would highlight that this is only the third quarter of underperformance since inception and that we have out-performed in 87% of the total number of quarters since inception.

On the positive side two of our resources companies received takeover offers (PIR and PNA). Whilst on the negative side there were negative profit updates from Select Harvest, Maxitrans, Super Cheap Group and Ingenia. We believe the issues surrounding SHV and Ingenia are more short term in nature but that Super Cheap and Maxitrans are more beholden to a difficult domestic trading environment.

The upcoming results season appears now to be more challenging than was anticipated a couple of months ago due to the dramatic fall in the iron ore price and a tough federal budget that appears to have severely weakened consumer sentiment. Retailers in particular have been negatively impacted with trading conditions looking to have deteriorated quite considerably since early May.

Finally we have commented at length previously on the spate of IPO's being currently undertaken and we continue to be generally unimpressed. There have been many recent examples of low growth and cosmetically altered companies spun out of private equity at unattractive pricing metrics. Accordingly we will continue to pass on the majority of these.

Overall we expect the smaller ordinaries benchmark to continue in a holding pattern for the time being with valuations remaining full and diminishing prospects of a cyclical improvement in earnings necessary to drive share prices higher.

## Portfolio Strategy

As per normal we will maintain our focus on stock selection and finding new investment opportunities of which there are several currently under consideration.

## Performance Attribution

We highlight below the largest positive and negative relative performance contributors during the quarter of June 2014.

Positive contributors		Negative contributors	
Papillon Resources Limited	Overweight	Flight Centre Travel Group Limited	Overweight
Sundance Energy Australia Limited	Overweight	REA Group Ltd	Overweight
Prana Biotechnology Ltd	Not Held	Select Harvests Limited	Overweight
Magellan Financial Group Ltd	Not Held	MACA Limited	Overweight
Vocation Ltd.	Overweight	G8 Education Limited	Overweight

## Contributors

Papillon Resources received a takeover offer resulting in positive performance, Sundance Energy divested assets resulting in the realisation of value. Prana Biotechnology and Magellan Financial Group were not held in the portfolio, their exclusion resulting in positive performance relative to the index which Vocation benefitted from an announcement concerning an accretive acquisition.

## Detractors

Flight Centre was slightly weaker resulting from a profit guidance update, REA Group underperformed due to potential backlash from pricing increases. Select Harvests had a weaker crop harvest in 2014 due to poor weather, MACA suffered from a sector wide sell off during the quarter and the G8 share price saw consolidation after a strong run in previous periods.

## Major Stock Additions

### Dick Smith Holdings (DSH)

We added DSH to the fund due to its compelling valuation and attractive earnings growth profile over the next few years.

### Veda Group (VED)

This company still maintain a dominant position in the domestic credit bureau space with several growth options especially its initiatives associated with the introduction of positive credit reporting.

### National Storage REIT (NSR)

Company is an owner and operator of storage facilities with a clear objective to roll up the sector. This roll up strategy should drive substantial earnings growth over many years to come.

## Major Stock Disposals

### Ramsay (RHC)

Was disposed due to its promotion to the 50 leaders index.

### Aurora Oil & Gas (AUT)

We exited our position due to its takeover offer being successful.

### UXC (UXC)

We sold our position as we no longer have sufficient conviction in the company's medium term earnings forecasts.

## Top Ten Holdings

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

Ainsworth Game Technology Limited	Flight Centre Travel Group Limited
Ardent Leisure Group	G8 Education Limited
Carsales.Com Limited	Independence Group NL
Charter Hall Group	Nine Entertainment Co. Holdings Pty Ltd.
Duluxgroup Limited	REA Group Ltd

Number of stock holdings at 30 June 2014:

60

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