Fairview Equity Partners
Monthly Net Investment Report

30 April 2018

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 April 2018	1 Month %	3 Months %	1 Year %	3 Years p.a. %	5 Years p.a. %	Since inception# %
Fairview Emerging Companies Fund*	2.06	2.68	18.91	8.94	8.16	11.92
S&P/ASX Small Ordinaries Accumulation Index	2.75	0.44	18.45	11.07	8.05	5.67
Excess Return*	**-0.69**	**2.24**	**0.46**	**-2.13**	**0.11**	**6.25**

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

Performance and Market Outlook

Following a volatile March quarter, the month of April saw a return to solid gains for Australian equity investors. The S&P/ASX Small Ordinaries Accumulation Index increased by a solid +2.8% across the month, with calendar year to date now essentially flat. The Small Industrials rose +1.5% during April while the Small Resources Index rallied +6.9%. On a rolling 12 month basis the Small Resources is +46.7%, as against a +11.9% gain for Small Industrials.

The Fairview Emerging Companies Fund also reported solid absolute gains during the month, albeit slightly below this benchmark. On both a 3 month and 12 month rolling basis the Fund has produced solid absolute returns for investors, pleasingly also above benchmark levels.

The S&P/ASX200 (+3.9%) followed many Asian and European Indices higher, outperforming the major US Indices (S&P500 +0.3%). Trade Tensions between China and the United States continued, while relations on the Korean Peninsula improved, with North Korea expressing a desire for de nuclearisation. European stocks rallied through April. French (+6.8%) and UK (+6.4%) Indices were the stronger performing. Asian Equities finished broadly higher in April, noting the juxtaposition of increasing trade tensions between China and the United States, and the seemingly improving relationship on the Korean Peninsula. The Japanese Nikkei rallied +4.7%, with investors relieved that the United States did not make new trade demands during the recent leader summit, whilst the Hang Seng traded +2.4% higher.

In Australian Politics, Prime Minister Malcolm Turnbull lost his 30th consecutive Newspoll in April, while The Royal Commission into the Banking, Superannuation and Financial Services Industry entered Round 2, focusing on Financial Advice. The Reserve Bank of Australia left the Overnight Cash Rate on hold at +1.5%, for the 18th month in succession. As RBA Governor Philip Lowe reminded, the last increase in the cash rate was now more than seven years ago. Whilst higher official rates are not expected in the nearer term, from current low levels a 25 b.p. increase will certainly have a proportionately high impact on borrowers.

Stronger performers within the Small Ordinaries were mixed in nature. Beach Energy (BPT) rose +30.0% after a quarterly report highlighting strong Q.1 production growth, reduced net gearing, and further detail on the Lattice Energy acquisition. Media company HT&E Limited (HT1) soared +23.9% after receiving a bid from outdoor media peer Ooh Media (OML) for its street furniture advertising brand Adshel, which it subsequently rejected. Infigen Energy (IFN) was +18.0% higher after it was disclosed that experienced renewable energy investor Brookfield Asset Management had acquired 9% of the company. Outdoor Media operator APN Outdoor rose +17.7% with industry data highlighting buoyant conditions within this segment of the market. Finally, Speedcast has re rated more recently (+15.2% for April) following announcing a debt refinancing and as the market anticipates an improved outlook for the energy exposed segment of this satellite based network communications provider.

In terms of weaker performers, the monthly prize goes to alternative asset manager Blue Sky Alternative Investments (BLA), with the stock down -70.4% after coming off voluntary suspension. The shift in sentiment surrounding the short interest research report was compounded by a negative operating update, and subsequent resignation of the MD. Comparative website ISelect (ISU) was -44.1% after a very negative trading update (F.18 EBIT guidance revised down by 40-70%) and CEO resignation. Just as a minor point of reassurance for unitholders, Fairview exited its modest position in ISU ahead of this time. Village Roadshow (VRL) was -30.8% after a negative trading update highlighting challenging conditions for both the Theme Park and Cinema businesses, whilst Impedimed (IPD) was -24.8% after its quarterly result later in the month highlighted modest revenues and higher than expected net operating cashflow.

The Federal budget will be handed down on May 8 and, without wanting to sound too cynical, with Malcolm Turnbull having lost his 30th consecutive Newspoll in April and with an election looming inside the next 12 months, we would expect to see some loosening of the purse strings. The recent Victorian budget, ahead of a November state election, certainly appears to have been one aimed at voters. The potential scrapping of previous plans to raise the Medicare Levy (to fund the National Disability Scheme) given a stronger than expected revenue environment, and talk of personal tax cuts in some form, would potentially aid a retail sector which has faced some challenges in the past few years. Further impetus is likely to be added to an already strong outlook for infrastructure spending. Importantly, there has been very little discussion around potential cuts within the healthcare sector and indeed there is some prospect for net positive announcements.

The last few weeks have seen a number of investor conferences held. With companies now a large part through their financial year, this period has historically proven to be somewhat of a confession period. It is typically a somewhat skewed outcome, with companies preferring to keep a little up their sleeve if things are travelling well, but adjusting expectations if they are not. Within the 160 companies within the Small Industrials Index, over the rolling 60 days to the time of writing, there have been 19 companies which have seen negative revisions to current year consensus EBITDA (of greater than 3%). This compares to a more modest 7 with positive revisions. Aggregate F.18 EPS growth expectations for Small Industrial stocks have been progressively wound back from early ‘teens’ early in the forecast period to a modest ~1% growth currently. As we stand today, there are again expectations for low double digit EPS growth into F.19. This consistent pattern of initially optimistic EPS growth expectations being progressively wound back by analysts is not, in isolation, helpful for broader index performance. It also highlights that in aggregate the solid returns delivered over the past 12-24 months has largely come through multiple expansion rather than EPS growth / earnings revisions. We do highlight, however, that the environment remains quite different in the small resources space, with consensus expectations likely to require upward revision relative to spot commodity prices across a range of segments.

Performance Attribution

We highlight below the largest positive and negative relative performance contributors during the month of April 2018.

Positive Contributors		Negative Contributors	
Blue Sky Alternative Invest	Nil Holding	Beach Energy	Nil holding
NIB Holdings	Nil holding	Kogan	Overweight
Navitas	Nil holding	Credit Corp	Overweight
Freedom Foods	Overweight	Metcash	Nil holding
Iluka	Overweight	Worley Parsons	Nil holding

Contributors

Blue Sky Alternative Investments (BLA): As outlined above, this alternative asset manager was down significantly on the back of negative sentiment surrounding a research report published by a short seller, raising concerns around accounting treatments and valuation practices. The negative loop continued, with changes in senior management and downward revisions to earnings guidance, guidance which post month end has already been subsequently withdrawn. We do not hold Blue Sky shares within the Fund.

NIB Holdings (NHF): Private health insurer NHF has seen its share price retrace in excess of 22% from its all time highs of early March, albeit with limited newsflow. The local private health insurance industry faces a number of structural challenges, there is potential for increased prudential capital requirements, and the low claims environment currently aiding profitability and margins is unlikely to be sustained. We do not hold shares in NHF.

Navitas (NVT): Education services provider NVT continued its de rate during the month, with 3% growth in student enrolments for first semester 2018 (F.18 enrolment growth 6%) within its University Partnerships division underwhelming the market. Australian growth slowed whilst the US remains challenging. We do not own shares in NVT.

Freedom Foods (FNP): Freedom announced a $200m capital raising in March to accelerate plans to significantly expand its production capacity across both its dairy and non dairy based operations, so as to meet strong levels of consumer demand. There was also a positive initiation report from a global broker during the month which is increasing market awareness of this name.

Iluka (ILU): ILU released its quarterly production result during the month. Despite a mixed production result, positive newsflow associated with this release included that the Cataby project remains on schedule and budget, accelerated plans for a mining restart at Ambrosia, and securing of further price rises evidencing strengthening conditions within end markets.

Detractors

Beach Energy (BPT): Beach Energy saw its share price rise +30.0% during the month after a quarterly report highlighting strong Q.1 production growth, reduced net gearing, and further detail on the Lattice Energy acquisition.

Kogan (KGN): After reaching an all time high of $10 in March, KGN gave up some modest ground during this latest month. We have owned the stock since its July 2016 IPO at $1.80 and remain attracted to the growth available not only through its on line retail operations, but also its other verticals where it generates high margin commission payments from selling into the significant KGN customer base. Following the success of its mobile plan reselling arrangement with Vodafone, Kogan has recently launched its NBN product, whilst insurance is another more recent vertical being offered.

Credit Corp (CCP): Despite reaffirming current year earnings guidance at an investor conference the stock continued to drift lower during April. Whilst the Australian debt ledger business is mature, and CCPs share is unlikely to trend markedly higher, we remain attracted to the opportunity available from its earlier stage US debt ledger operations given the improving conditions within this sizeable market.

Metcash (MTS): Metcash rallied 15.0% during the month of April on seemingly limited newsflow. MTS reported a better than expected H.1 result back in December, with an outlook likely driven by cost savings out of the Supermarkets division, Hardware Division benefits associated with the Home Timber and Hardware merger, and any value generated from efficient use of its currently debt free balance sheet. We do not currently own shares in MTS.

Worley Parsons (WOR): Whilst WOR has recently announced a minor acquisition in the Germany chemicals sector, as well as a number of project related wins, the 13.3% share price gain for the month likely more relates to thematic attractions to the stock within a rising oil price environment (oil price up in excess of 40% on p.c.p.). WOR is leveraged to improving capex within the energy sector.

Top Ten Holdings

We highlight below our top ten active holdings within the portfolio, in alphabetical order, as at 30 April 2018

Ausdrill	Kogan
Australis Oil and Gas	McMillan Shakespeare
Credit Corp	RCR Tomlinson
Corporate Travel Management	Service Stream
IDP Education	Webjet

Number of stock holdings as of 30 April 2018	**57**

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