Fairview Equity Partners
Monthly Net Investment Report

31 August 2017

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 August 2017	1 Month	3 Months	1 Year	3 Years p.a.	5 Years p.a.	Since inception#
Fairview Emerging Companies Fund*	1.94	3.67	-9.19	3.26	7.61	10.83
S&P/ASX Small Ordinaries Accumulation Index	2.71	5.12	3.21	5.69	5.72	4.45
Excess Return*	**-0.77**	**-1.45**	**-12.40**	**-2.43**	**1.89**	**6.38**

** 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

Global equity markets again traded disparately during the month of August, with the US market essentially flat (S&P500 +0.1%), most European markets trading slightly lower (STOXX 50 -0.8%, DAX -0.5%, FTSE 100 +0.8%), whilst Asian markets were again primarily stronger (China Shanghai +2.7%, Hang Seng +2.4%, Nikkei 225 -1.4%). Domestically, the S&P/ASX 200 closed the month +0.7%.

Within the domestic market the S&P/ASX Small Ordinaries Accumulation Index rose solidly during the month of August (+2.7%), and continued the recent outperformance relative to the large cap segment of the market (S&P/ASX 100 +0.5%). Small Resources (+7.1%) continued their recent outperformance of the Small Industrials (+1.7%) during the period. On a rolling 12 month basis the Small Resources is +11.0% as against a more modest +1.6% rise for the Small Industrials. With Small Resources now accounting for approximately 25% of the Small Ordinaries Index, this has been a headwind for managers (including ourselves) whom are underweight this space.

Stronger performing stocks within the S&P/ASX Small Ordinaries during the month included Starpharma (SPL), +36.8% after announcing encouraging Phase 3 clinical trial data improving commercialisation opportunities, Highfield Resources (HFR), +34.5% (no substantive newsflow), Blackmores (BKL) +27.7% after posting a better than expected Q.4 result, and Mineral Resources (MIN) +23.5% following a strong operating result, and with iron ore prices improving more recently. Weaker stocks during the month included CSG Group (CSV) -43.5% after announcing another disappointing result, GBST (GBT) -41.8% after downgrading F.18 expectations and surprising the market with plans to lift strategic R&D spend over the next 3 years, Mayne Pharma (MYX) -30.2% post a negative trading update earlier in the month, and Isentia (ISD) -20.7% following a result which again disappointed the market in terms of both composition and momentum.

The domestic market was understandably pre-occupied with the recent reporting season, with the release of financial results and associated presentations and commentary providing numerous stock specific catalysts. At a broader level, there was still a bias toward earnings missing expectations and forward expectations being revised downward. Whilst there are numerous ways to cut such data, if we look at the number of stocks within the Small Ordinaries universe with changes to consensus EBITDA estimates for financial year 2017 over the month of August (which in most cases is a good proxy for whether earnings met / missed expectations), we can see that the ratio was 41% positive / 59% negative. As an aside this compares to 38% positive / 62% negative for the ASX 100 universe. If we look at revisions to financial year 2018 EBITDA estimates, and isolate it to revisions greater than 3% (as a proxy for more meaningful revisions) then 15% of companies saw positive revisions, 32% negative, with the remaining 53% essentially unchanged (within +/-3%).

Following recent reporting season related revisions, the market is now looking for +15.6% EPS growth from within the Small Ordinaries Index for the year to June 2018 (+9.3% for Small Industrials), with the Small Ordinaries now trading at 15.4x (Small Industrials 16.2x). By comparison the ASX 100 is currently trading on 15.6x June 2018 estimates, with forecasts for a more modest +3.7% EPS growth.

These trading multiples are modestly above longer term averages, within an operating environment which at a broader level remains stable rather than strong or improving, and with consensus earnings revisions still directionally negative. Whilst these are typically not ingredients for bullish nearer term market performance, equity market metrics relative to most alternate asset classes remain supportive. Further, whilst geopolitical risk continues to periodically raise its head, we are seeing improvement within larger global economies. We are also of the view that more recent pricing improvements across several commodities, combined with capital market access to fund project expansion, remains supportive of this market segment, and we have more recently taken steps to reduce our underweight exposure to the resources market.

Post a frantic reporting season and numerous meetings with company management, the next several weeks are a period to more fully digest this raft of new and updated information, revisit existing names which warrant further attention or scrutiny, and follow up further on potential new investee companies which caught our eye through the recent reporting season. It is typically a time where the portfolio undergoes some adjustment and we would expect no less this time around as we continue to ensure that our portfolio remains well positioned for the current environment, balanced in terms of its level of diversification, and with strong and current investment cases which hopefully exploit our level of market insight.

Performance Attribution

We highlight below the largest positive and negative relative performance contributors during the month of August 2017.

Positive Contributors		Negative Contributors	
Kogan	Overweight	Mayne Pharma	Overweight
Costa	Overweight	Nearmap	Overweight
Ausdrill	Overweight	A2 Milk	Nil holding
Trade Me	Nil holding	Magellan Financial Group	Overweight
Webjet	Overweight	Whitehaven Coal	Nil holding

Contributors

Kogan (KGN) continued to rally strongly throughout the month, after presenting a standout maiden result which exceeded expectations across all measures. The subscriber base continues to grow, the core business is showing strong improvement, and the newer verticals such as mobile are delivering very strong returns as Kogan and its partners leverage this growing customer base. There was a modest sell down by the founders following the result, which will hopefully provide additional market liquidity in a story which is understandably gaining increased attention.

Costa Group (CGC) After successive positive earnings updates throughout the year, the 37% NPAT growth delivered was above expectations across all produce units, whilst initial guidance for the F.18 year of 10% would appear to be on the conservative side. In addition to strong growth arising from its recent moves into avocados, there are several medium term growth initiatives underway across each of its mushrooms, berry, tomato and citrus pillars domestically, whilst it continues to expand its berry production across its Morocco and China operations. Recent weather related news flow from the Northern hemisphere will support stronger citrus pricing.

Ausdrill (ASL) continued to rally into what proved to be a strong F.17 result, with guidance for 30-40% growth in NPAT for 2018. We note that this strong outlook is primarily on the back of more recent contract wins, and seemingly factors in little with regard to the very strong pipeline of tender opportunities, particularly out of the African market. This will likely provide further growth into 2019. Late in the month, ASL took the opportunity to raise $100m in new capital, in part to fund this likely strong pipeline of work, and we took our pro rata allocation in this placement.

Trade Me (TME) Trade me was weaker as the market digested a disappointing full year result which highlighted a recent moderation in volume growth, raising concerns around the impact of competition. A likely increase in promotional and other investment has moderated forward expectations. We do not hold TME.

Webjet (WEB). After a prior month impacted by noise surrounding a dispute with its auditor, the stock largely recovered during August. It delivered a strong full year result, demonstrating continued strong growth in profitability, at rates well above industry trends. An accompanying year to date trading update was also positive. In addition to continued growth in its existing B2C and B2B operations, the WEB growth profile is further enhanced by the recent JAC travel acquisition, its partnership with global hotel supplier Thomas Cook, and rapid acceleration into the Asian B2B market.

Detractors

Mayne Pharma (MYX): MYX continued to underperform during this last month. The company provided a trading update early in the month, highlighting underlying F.17 EBITDA below market expectations, acknowledging continued pricing pressure in its Generic Products division as a consequence of consolidation within the buying groups.

Nearmap (NEA) Following a prior month where the stock performed strongly after providing a preliminary update on its F.17 results, and referencing the opportunities following the recent release of oblique imagery and related 3D products in both markets, the stock gave back some of those gains during August. There was nothing in its result release which provides us with any undue concerns, the company reporting growth in annual contract value of 29% for F.17.

A2 Milk (A2M) Despite successive positive updates during the course of the year A2M delivered a result above market expectations. Infant formula demand remains strong, whilst mix shift and price rises have further aided profitability. The company announced intentions for a share buyback over the next 12 months. We do not hold shares in A2M.

Magellan Financial Group (MGF) under performed during August. The result was largely in line with market expectations. Whilst the company highlighted a likely moderation in the rapid employee cost growth seen in recent years, it did highlight a likely significant rise in marketing costs as it increasingly targets the self directed investor, as well as the bearing of both the offer and loyalty bonus costs associated the upcoming launch of the listed Magellan Global Trust. We view that these initiatives to tap into the self directed market, through a closed end trust of significant scale, will prove accretive.

Whitehaven Coal (WHC) Whitehaven reported a strong improvement in profit on the back of higher volumes and strong prices. Net debt has continued to come down, with the announced distribution to shareholders further highlighting the improved state of the balance sheet. Despite some concerns around volume cuts associated with the need to move longwalls at Narrabri due to faulting, the result and outlook commentary were taken positively. We do not hold WHC.

Top Ten Holdings

We highlight below our top ten holdings within the portfolio, in alphabetical order, as at 31 August 2017

Bapcor Ltd	IDP Education Ltd
BWX Ltd	Charter Hall Group
Corporate Travel Management Ltd	Regis Resources Ltd
Costa Group Holding Ltd	Sandfire Resources NL
Credit Corp Group Ltd	Webjet Ltd

Number of stock holdings as of 31 August 2017	**53**

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