Fairview Equity Partners
Monthly Net Investment Report

31 January 2018

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 January 2018	1 Month	3 Months	1 Year	3 Years p.a.	5 Years p.a.	Since inception#
Fairview Emerging Companies Fund*	0.90%	7.10%	18.76%	10.80%	7.49%	11.94%
S&P/ASX Small Ordinaries Accumulation Index	-0.54%	6.65%	22.35%	13.83%	6.40%	5.78%
Excess Return*	**1.44%**	**0.45%**	**-3.59%**	**-3.03%**	**1.09%**	**6.16%**

** 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

As another busy interim reporting season starts, we are pleased to reveal Fairview beat the index in January 2018. The S&P/ASX Small Ordinaries lost 0.54% in January whilst we posted a positive 0.90% increase. Resources and industrial equities delivered similar returns. Energy stocks were the index standout and lithium stocks dragged towards the end of the month. The Australian equity markets broadly underperformed the key US indices in January, which thrived in a period of a strongly recovering US economy as well as the lure of big corporate tax cuts.

The big theme that has now surfaced in February is instability in bond yields. The recent stock market retracement was chiefly caused by poorly designed financial products that profited from low price volatility. When volatility rose sharply these products, in some cases, became worthless. We conclude this retracement was a market structural deficiency rather than an economic problem.

The stock market now has to digest what rising bond yields mean for equities. Generally modest yield rises are positive as it suggests the global economy is expanding at an above normal pace. Various data points are confirming this. At the same time, bond proxy stock sectors such as infrastructure, gold and REITs often suffer pain throughout a rising yield environment. In spite of rising bond yields, we see no evidence of corporate credit being curtailed. Easy credit availability and lack of organic growth are powerful drivers of M&A. This has already started, with both AWE and Sirtex aggressively bid for recently. History suggests this M&A surge will continue through calendar 2018.

Heightened M&A has another impact; it opens the door for the IPO market. Feedback from brokers is that there is a raft of smaller companies seeking to list at the right price. We remain wary of ex private equity float offerings but are always happy to provide capital to those companies with a legitimate need of equity funds to grow their business, one recent example being Kogan. This stock is now four times its IPO price only 18 months ago.

Performance Attribution

We highlight the largest positive and negative relative performance contributors during January 2018.

Positive Contributors		Negative Contributors	
Australis Oil and Gas	Overweight	Sirtex Medical	Nil holding
Nearmap	Overweight	Bellamy's Australia	Nil holding
Bravura Solutions	Overweight	Mineral Resources	Overweight
HUB24	Overweight	Lifestyle Communities	Overweight
Altium	Overweight	Somnomed	Overweight

Contributors

Australis Oil and Gas (ATS) management enjoyed seeing their stock price up 60% in the month, primarily due to an excellent nine fold increase to its 2P reserves in its Tuscaloosa Marine shale deposit. The rising oil price also helped.

Nearmap (NEA) shot out of the blocks after pre-announcing strong growth in Annualised Contract Value in both its Australian (up 31% on pcp) and US operations (up 175% on pcp).

Bravura Solutions (BVS) continued to rally in January as analysts upgraded the company's earnings estimates post client wins that Bravura had announced in December 2017.

HUB24 (HUB) reported Funds Under Administration (FUA) growth of $554m in the December 2017 quarter to bring total FUA to A$6.9b. This announcement continued the spectacular growth of previous quarters as financial advisors continue their seismic shift away from the big four banks and AMP towards the independent platform providers.

Altium (ALU) benefitted from positive broking analysts' reports that were published during a quiet month and hence were more thoroughly digested by investors than usual.

Detractors

Sirtex Medical (SRX) was bid for on 30 January at a stunning 60% premium to its one month Volume Weighted Average Price. This bid originated from Varian Technologies. Alas we did not hold Sirtex at the time.

Bellamy's Australia (BAL) lifted its revenue guidance from 15 to 20% growth to 30 to 35% as well as upgrading its margin expectations mid-month. We do not hold Bellamy's in our portfolio.

Mineral Resources (MIN) suffered after the company lifted its bid for AWE and also post the general malaise among Lithium stocks towards the end of January.

Lifestyle Communities (LIC) This underperformance was a surprise. The business is travelling very well indeed as the settlement update in January highlighted. We can only put it down to a retracement from a strong December price performance (LIC was up 15% in that month) as well as the announcement of the resignation of LIC's well-respected CFO.

Somnomed (SOM) disappointed us, and the market, when it stated that its RSS (Renew Sleep Solutions) store roll out in the United States was experiencing a slower ramp up than the company had previously advised.

Absolute Top Ten Holdings

We highlight below our top ten holdings within the portfolio, in alphabetical order, as at 31 January 2018

Ausdrill Ltd	Mineral Resource Ltd
Corporate Travel Management Ltd	Regis Resources Ltd
Costa Group Holdings Ltd	Sandfire Resources NL
Credit Corp Group Ltd	Webjet Ltd
McMillan Shakespeare Ltd	Whitehaven Coal Ltd

Number of stock holdings as of 31 January 2018	58

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