

Fairview Equity Partners Quarterly Net Investment Report

30 June 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

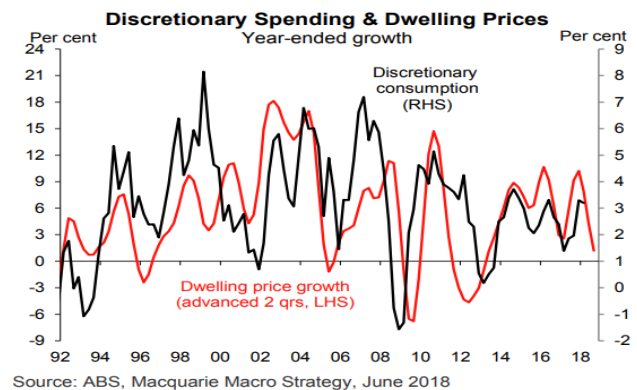
Period ending 30 June 2018	1 Month %	3 Months %	1 Year %	3 Years p.a. %	5 Years p.a. %	Since inception# %
Fairview Emerging Companies Fund*	1.17	7.83	24.96	12.12	11.63	12.34
S&P/ASX Small Ordinaries Accumulation Index	1.06	7.67	24.25	15.01	11.56	6.08
Excess Return*	0.11	0.16	0.71	-2.89	0.07	6.26

* 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

Fairview unit holders enjoyed strong returns for the June quarter both on a relative and absolute basis, these returns generated were at the upper end of our peer group.

Whilst Fairview, as a fund manager, is focused on stock picking, some economic trends are definitely worth observing closely. An interesting chart was recently published by Macquarie. It shows the impact that changes in house prices have on consumer discretionary spending. Falls in house prices start to really hurt consumer expenditure six months later. House prices in most states are continuing to fall. The current housing slowdown has many of the characteristics of a slow motion train wreck. Hence we are very cautious on the outlook for the Australian consumer, at this stage we are approximately 60% underweight domestic consumer and housing in our fund.



In contrast we are most keen on the powerful secular growth derived from the rise of the Chinese consumer. An interesting article from Trading Economics calculated 14% compound growth in Chinese consumer spending over the past 8 years. Approximately 11% of our fund is in stocks with significant consumer sales in China, these include Freedom Foods, Synlait milk, Costa and IDP (through tertiary education exports)

Looking forward

Generally July is a quiet month for investors as we all prepare for the August reporting season and listed companies enter black out. Resource quarterlies will be out mid-July and we will be focused upon any cost increases due to labour shortages that are starting to plague the WA economy. One key reason is the East coast infrastructure boom. Construction talent seems to be staying put in their home states. Another issue is Federal politics; populism is back, as witnessed last week in Mexico. An Australian Federal election is due maybe as soon as August but definitely by next May. We consider we have positioned our fund appropriately.

Performance Attribution

We highlight below the largest positive and negative relative performance contributors during the June 2018 quarter.

Positive Contributors		Negative Contributors	
IDP Education	Overweight	Ausdrill	Overweight
Appen	Overweight	RCR	Overweight
Blue Sky Alternative Inv.	Not held	Beach Energy	Not held
Metcash	Not held	Kogan	Overweight
Australis Oil and Gas	Overweight	Credit Corp	Overweight

Contributors

IDP Education (IEL) was the strongest contributor for our fund in the June quarter. The stock is up 41% in the past three months. A few management presentations at landmark conferences and some bullish broker initiations was all it took. Recent industry contact suggests IDP's international student placements division is benefitting from the Trump effect, especially in Canada.

Appen (APX) was recognised by the general market for its very clever Leapforce acquisition last year. Non holders argue that there is substantial customer concentration risk; be that as it may, it helps to be US market leader as Appen now is.

Blue Sky Alternative investments (BLA) endured a horror quarter. We have looked closely at this stock in the past but never invested as we could not obtain comfort as to how BLA's earnings are derived. We must admit we still can't get comfort, even with the stock down 90%.

Metcash (MTS) is a business under structural threat, we have historically liked the hardware exposure but even that is now looking topky. Loss of key supermarket customer chains is not a good look, we do not own Metcash.

Australis Oil and Gas (ATS) performed solidly during the June quarter, with the market responding well to its March quarterly activities report. This highlighted the company's progress in preparing for an upcoming drilling program aimed at proving up its Tuscaloosa Marine Shale play. An investor site visit also aided in increasing interest in the company.

Detractors

Ausdrill (ASL): ASL performed poorly in the quarter, despite its African underground joint venture announcing a new project. The key negative was some poorly performing current contracts. There remains a strong prospect for further contract announcements from a buoyant tender pipeline; however award news flow has remained light in recent months

RCR Tomlinson (RCR): An absence of company specific contract announcements and some broader based selling across mining services names hit RCR. There was also investor concern regarding announced changes to subsidy pricing structures for solar operators, with the solar space a growth driver for RCR.

Beach Energy (BPT) is not held in the fund. Our three key energy names; Australis, Whitehaven and Cooper all had good quarters.

Kogan (KGN) demonstrated why small cap investing is not for the faint hearted. Among our best performers in May, Kogan management's posited then abandoned share sell down took 29% off its share price during the month of June. We have expressed our concern to management and the board.

Credit Corp (CCP) drifted in the June quarter. The stock was very harshly dealt after an anonymous short seller report was released in late June that, among other things, suggested Credit Corp is a pay day lender. After the very effective management rebuttal, the stock regained all the ground given up in its first day trading after the short report was released.

Major Stock Additions

Integral Diagnostics (IDX): We are attracted to solid radiology volume growth and opportunity for margin improvement through optimisation initiatives, together with ongoing high returning brownfield and greenfield investment. The recent budget was benign to positive for the imaging sector and we suspect both major political parties will be loath to cut into the Federal healthcare budget in the upcoming election campaign.

Nine Entertainment (NEC): We initiated a position in NEC on the basis that market profit expectations remain too low. NEC has enjoyed solid ratings improvement, which it is yet to fully monetise and has a more disciplined approach to programming and other cost management. The broader TV advertising market is also showing some signs of life. The subscription television business STAN (JV with Fairfax) continues to grow subscribers, is reaching cashflow positive inflexion, and has the prospect of adding significant value over time.

Synlait Milk (SM1): Synlait is the only current infant formula manufacturer for A2 Milk. It also produces other infant formula brands. Synlait also controls the valuable Chinese CNCA licence, and with capacity constraints largely removed, SM1 is well positioned to continue to benefit from strength in this market. It is also expanding into other areas such as the adult nutritional market, which furthers its growth path.

Major Stock Disposals

BWX (BWV): Unfortunately we exited this position just ahead of the announced bid by management and private equity for this business. Sub optimal timing aside, we had become more cautious around the domestic consumer environment more broadly, but with available growth in BWX's core domestic growth engine more specifically, exacerbated by pushback from larger pharmacy customers post its move into the supermarket channel.

Cardno (CDD): We sold post termination of the CEO's employment. Corporate governance issues relating to this gentleman's previous employment at SMEC have the potential to exclude Cardno from US government panels. With the US opportunity a key component of our investment thesis, we decided to err on the side of caution in this case.

ISelect (ISU): We exited this small holding well ahead of the significant earnings downgrade and accompanying CEO resignation during the period. ISU lowered its current period EBIT guidance by 60-70%. Our concerns centred around increased competition, rising costs associated with lead generation, and reinvestment required to build out its capability.

Link Administration (LNK): Recent budget announcements surrounding changes with respect to lower super balances have the potential to materially impact LNK in future years, which we did not view as reflected in the rating for the stock.

SG Fleet (SGF): The thesis for this long held stock had played out. Recent car fleet channel checks suggested some possible recent contract losses and increasingly competitive conditions within the domestic fleet leasing market.

Somnomed (SOM): We sold this modest position following a disappointing trading update surrounding its earlier stage Renew Sleep Solutions business. There has been greater than expected variability in performance across newly rolled out centres.

Top Ten Holdings

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

Altium	IDP Education
Australis Oil & Gas	Mcmillan Shakespeare
Corporate Travel Management	Nine Entertainment Co.
Costa Group Holdings	Regis Resources
Credit Corp Group	Webjet

Number of stock holdings as of 30 June 2018	51
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