Fairview Equity Partners
Quarterly Net Investment Report

31 March 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 31 March 2018	1 Month	3 Months	1 Year	3 Years p.a.	5 Years p.a.	Since inception#
Fairview Emerging Companies Fund*	-1.97%	1.51%	15.12%	8.63%	7.00%	11.79%
S&P/ASX Small Ordinaries Accumulation Index	-2.29%	-2.79%	14.99%	10.68%	6.45%	5.42%
Excess Return*	**0.32%**	**4.30%**	**0.13%**	**-2.05%**	**0.55%**	**6.37%**

** 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

The March quarter delivered solid returns to our unit holders, both on an absolute and relative basis. In contrast the S&P / ASX Small Ordinaries Accumulation index declined 2.79%, with most of the decline in the month of March.

As we highlighted in last month's commentary, the looming trade battle between USA and China will be very noisy for investors in ASX companies that are on the wrong side of either of these economic giants. China could view Australia as a trade ally of Washington. A couple of ASX companies who have seen rapid growth in the Chinese consumer space could be very vulnerable to Chinese retaliations. Whatever happens; it won't be good for world trade and for those stocks that rely on the rise of global manufacturing capacity. We have recently reduced our resources weights in the portfolio as a precaution.

A key domestic issue to watch for next is the Federal budget in May. Whispers about policy changes from Treasury generally start in early April. In this era of rampant populism there is little political will to be fiscally prudent. We would be surprised if there are any major spending cuts within the key education and health portfolios. The health sector could possibly be a net beneficiary in the budget. The government will remember the very clever Labour *Mediscare* campaign that almost lost the coalition the last election. We feel we have positioned (and are continuing to re-position) our portfolio to better withstand pressures from this populist trend.

Another fascinating development in late March was the resurfacing of short seller research. This time Blue Sky Alternative Investments (ASX code: BLA) was the target of a very detailed Glaucus research report that attempted to cast doubt on Blue Sky's stated assets under management. We had a very good look at Blue Sky about a year ago and could not get comfortable as to how alternative assets will be priced in a rising interest rate environment. Typically rising rates will reduce liquidity and should have a leveraged negative impact on illiquid assets. Market opinion is divided on the issue of short seller published research. We also expect that ASIC, as a national regulator, will struggle to keep up to date in an era of instantaneous global disclosure.

In some respects these short seller research reports have replaced those that historically were produced by broking analysts. Investment bank sell recommendations are becoming fewer and fewer. We generally don't pay attention to broker buy or sell recommendations as we attempt to assess a company's value relative to our investable universe. Goldman Sachs recently commented that the number of small cap broker estimates on FactSet has fallen 30% in the past three years. Fairview considers this reduction in broker coverage only further reinforces the need for small cap managers such as ourselves, where we take pride in our extensive company visitation program and undertake our own analysis. However small cap quant and index funds should be nervous as they rely far more on broker earnings estimates.

Another signpost for investors is the recent fall in capital city house and unit prices. Sydney seems to be leading the 2018 minor rout in house prices whilst Brisbane unit prices look dismal. We sold out of Reece Holdings in December, having held it for years and made great returns out of it. Reece is one of the best managed building supplies companies in the small ordinaries but is reliant on national renovation spend. We consider house price movements will determine renovation activity and infill development vs broad acre development on the city fringes.

Performance Attribution

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

Positive Contributors		Negative Contributors	
Nearmap	Overweight	BWX	Overweight
Australis	Overweight	Getswift	Overweight
Kogan	Overweight	Bellamy's	Not held
Altium	Overweight	Sirtex	Not held
IDP Education	Overweight	Nine Entertainment co	Not held

Contributors

Nearmap (NEA) benefitted from great announcement momentum and increased broker coverage. The key point from the interim result is that the bulk of US based cost growth is behind them and US profitability is closer than the market had forecast. The stock shot out of the blocks in January after pre-announcing strong growth in Annualised Contract Value in both its Australian (up 31% on pcp) and US operations (up 175% on pcp).

Australis Oil and Gas (ATS) stock price was up 62% in the quarter, primarily due to an excellent nine fold increase to its 2P reserves in its Tuscaloosa Marine shale deposit. The rising oil price also helped. As expected the company raised capital in late March to fund its drill program, which was very well received. We took up our full pro rata entitlement.

Kogan (KGN) Mobile phone plan sales growth was one of many highlights from this serial upgrader. We now count six upgrades since the stock listed in July 2016 and we have been a happy holder for all of them. Possibility of five new product launches in the next 12 months. The next should be Kogan NBN, any day now.

Altium (ALU) reported 30% revenue growth on pcp at its recent interim, a number that stunned the market. Management outlook comments strongly suggest that margin leverage will continue. Altium is an under-owned growth stock.

IDP Education (IEL) reported one of the better results early in the February reporting season. English language testing volumes were up 28% and student placements up 18% on pcp.

Detractors

BWX (BWX) frustrated shareholders with a below expectations result. Low organic growth in Sukin sales was determined to be the key culprit. We had down-weighted the stock prior to the result, but it still hurt us.

Getswift (GSW) starkly demonstrated a key risk that small cap fund managers grapple with. Our due diligence from talking to various users of the Getswift last mile logistics software suggested a very strong revenue growth profile. Alas corporate governance deficiencies around contract news flow were revealed, so we exited our small position.

Sirtex Medical (SRX) was bid for on 30 January at a massive 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 it revenue guidance from 15 to 20% growth to 30 to 35% as well as upgrading its margin expectations mid-January. We do not hold Bellamy's in our portfolio and are concerned by the company's prospects in light of the constantly changing Chinese regulatory environment.

Nine Entertainment Co (NEC) rallied strongly after demonstrating a lower than expected cost profile and strong summer ratings from the Ashes test series. The Free to air TV industry is still structurally challenged. However the voracious social media advertising rate increases (20 to 30% p.a.) over the past few years have given advertisers pause for thought and they seem to be reverting to media they know. We do not hold NEC at this time.

Major Stock Additions

Pinnacle Investment Management (PNI) was initiated at our minimum weight. Pinnacle is a funds management incubator which has large latent capacity and strong growth profile. We hope this investment weight grows as milestones are achieved.

Jumbo Interactive (JIN) is a classic under researched stock with growth options, through the charities lottery market. The recent announcement as to offshore synthetic lottery competitor, Lottoland, being effectively evicted from the domestic market was widely welcomed. The strong probability of more frequent jackpots is another key plank to our thesis

Kidman Resources (KDR) is an early stage lithium hard rock producer. Kidman has one of the world's largest lithium resource (30 year mine life), high grade & a projected low strip ratio. Kidman is catalyst rich with a recent excellent resource update and off-take agreement due in the next 6 months

Major Stock Disposals

G8 Education (GEM) was our most significant disposal in the quarter. In late January and early February we undertook a series of childcare channel checks that confirmed industry occupancy conditions were below par. We fortunately exited this stock well before the interim result which saw the stock underperform dramatically, this very weak performance has continued into April.

Getswift (GSW) was a poor investment for Fairview. Our due diligence from talking to various users of the Getswift last mile logistics software suggested a very strong revenue growth profile. Alas corporate governance deficiencies around contracts were revealed, so we exited our small position.

Freelancer (FLN) We exited our residual position in Freelancer in the quarter. This was a stock that showed so much promise but just did not execute. Revenue declined 5% in the year to Dec 2017. Not a good look for a purported growth stock.

Top Ten Holdings

We highlight below our top ten holdings within the portfolio by active weight, in alphabetical order, as at 31 March 2018

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

Number of stock holdings as of 31 March 2018	**60**

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