

# Fairview Equity Partners Emerging Companies Fund

31 December 2018



Quarter Report

## About the Fund

The Fund invests in an actively managed portfolio of mainly small cap equities listed, or expected to be listed, on the Australian share market.

## Investment Objective

The Fund aims to earn a return (after fees) which exceeds the Benchmark over rolling five-year periods.

## Benchmark

S&P/ASX Small Ordinaries Accumulation Index ("Benchmark")

## Inception Date

8 October 2008

## mFund Code

FEP01

## APIR Code

ANT0002AU

## Minimum Initial Investment

\$20,000

## Management Fee

1.20% p.a. of the Fund's Net Asset Value.

## Performance Fee

20.5% of the Funds quarterly return (after deducting the management fee) in excess of the Benchmark's quarterly return after recouping any prior periods' underperformance in dollar terms multiplied by the Fund's average net asset value over the quarter.

## Distribution Frequency

Annually calculated on 30 June. However, there may be periods in which no distributions are made or the Fund may make additional distributions.

## Buy/Sell Spread

+0.30% / -0.30%

## Number of Stocks

49

## Contacts

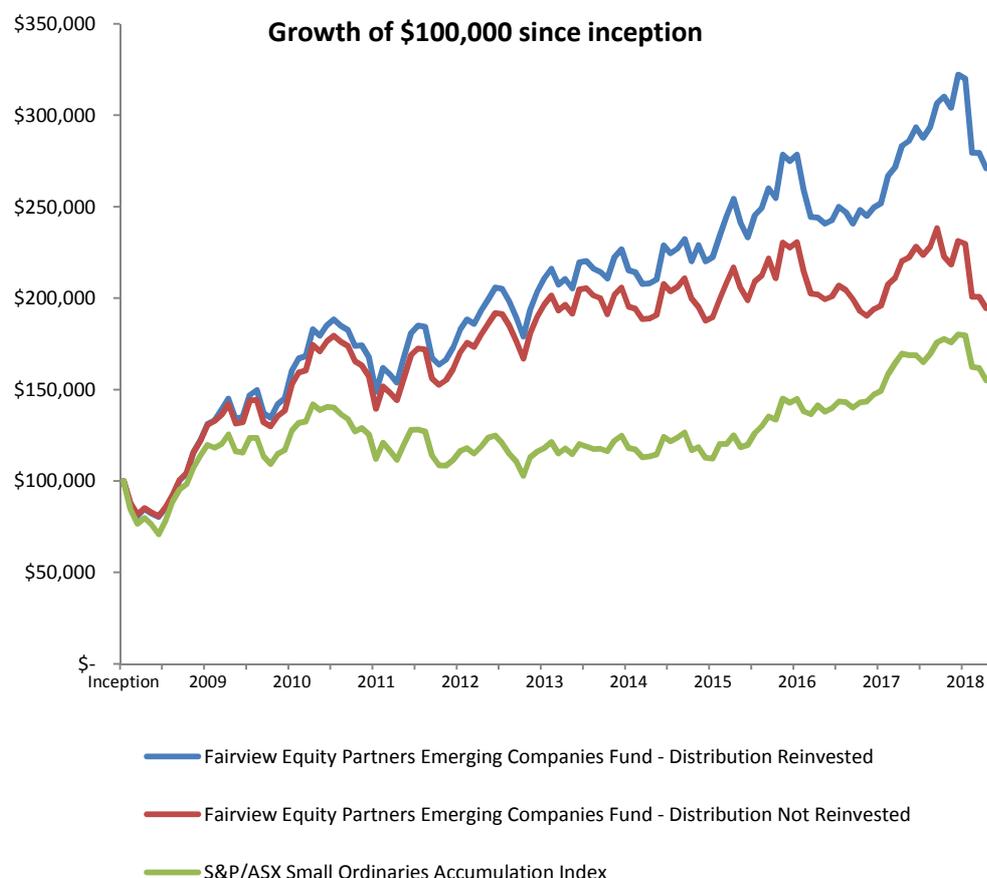
nabam.com.au  
fairviewequity.com.au  
Email: info@nabam.com.au  
Client Services: 1300 738 355

## Net Performance

Period	1 month %	3 months %	1 year %	3 years % p.a.	5 years % p.a.	10 years % p.a.	Since inception <sup>1</sup> % p.a.
<b>Fund Return<sup>2</sup></b>	-3.11	-15.35	-4.43	2.12	5.16	12.33	10.23
<b>Benchmark<sup>3</sup></b>	-4.18	-13.70	-8.67	7.45	5.62	6.88	4.38
<b>Excess Return</b>	<b>1.07</b>	<b>-1.65</b>	<b>4.23</b>	<b>-5.33</b>	<b>-0.46</b>	<b>5.45</b>	<b>5.85</b>

<sup>1</sup>Fund inception date: 8 October 2008. <sup>2</sup>Net returns are calculated after deducting management fees and are pre-tax.

<sup>3</sup>Benchmark: S&P/ASX Small Ordinaries Accumulation Index. Past performance is not a reliable indicator of future performance. The value of an investment may rise or fall with the changes in the market.



## Performance and Market Outlook

### 15% retracement

The three months to December saw the worst performance for the small cap index in the past five years. A 15% retracement in the Small Ordinaries index hurts. Investors around the globe did not appreciate an environment of further Fed rate rises as well as trade tensions between the world's two biggest economies.

### Risk mitigation

On a relative basis, Fairview unit holders were up approximately 1% vs the index in December. Calendar year 2018 outperformance was a heartening 4.2% net. On a month to month basis we outperformed in 8 out of 12 months. Apart from October, which was very disappointing, we did not suffer too many stock blow ups. Pleasingly, we also outperformed in four out of six down months in calendar 2018. This was an area where Fairview had struggled in the past few years and we have really focussed during 2018 on lowering stock specific portfolio risk for those stocks that we judge to be vulnerable to earnings downgrades.

### Downgraders smashed

Looking in detail at the key movers for the Small Ordinaries index in December 2018 the conclusion is the downgraders were smashed. BWX more than halved in the month after a downgrade on the 20<sup>th</sup> of December - its second in two months. We sold out of BWX in May 2018 due to corporate governance issues and cannot get comfortable enough yet to revisit. Another former portfolio holding, Ausdrill, also suffered an 18% drop in the month on cost inflation and contract non renewals. Apart from the gold stocks most other small ordinaries stocks dropped in December. Notable exceptions were restructuring stories such as Asaleo (+40% in the month but down 39% for the year in spite of that monthly rise). Companies that were targets of M&A bids; eg Graincorp, also jumped (+26%). It's interesting to note that this stock is currently trading 13% below the \$10.42 bid price. This suggests the market is not sure if the bid will proceed.

### What didn't we buy?

It is also a good time to review those stocks which we came close to adding to the fund during 2018, but decided against (there are many). Bingo Industries was very close to portfolio inclusion. We could not get enough confidence regarding the impact of the Queensland levy. This was the right call. Mayne Pharma also came close to re-entry into the fund but we felt another downgrade was probable. The AGM delivered this downgrade. Our biggest mistake in 2018 was Saracen. It was the best performer of the pure gold producers, up 73% for the calendar year. The impediment to Saracen's inclusion was the lack of cash generation versus our core gold sector holding of Regis.

### 6 of the top 10

Looking out to calendar 2019, we are seeing valuation support emerging but are still cautious of housing and domestic consumer exposures. We remain underweight these sectors. At Fairview, the investment process remains unchanged. We continue to focus on selecting companies that provide defensive, structural earnings growth tailwinds that are also reasonably valued. There are currently 196 stocks in the Small Ordinaries index. We take pride that we held 6 of the top 10 performers in the Small Ordinaries index in 2018.

## Investment Team



Michael Glenane

**Executive Director/Portfolio Manager**  
BE, MBA  
Over 25 years' Investment Management experience



Leigh Cronin

**Executive Director/Portfolio Manager**  
BBus, ACA, GDipAppFin, F Fin  
Over 20 years' Investment Management experience



Leo Barry

**Senior Investment Manager**  
BSA, MBA  
Over 11 years' Investment Management experience



Tim Hall

**Senior Investment Manager**  
BComm  
Over 18 years' Investment Management experience

This report is issued by Antares Capital Partners Ltd ABN 85 066 081 114, AFSL 234483 ('ACP'), the responsible entity of, and the issuer of units in, the Fairview Equity Partners Emerging Companies Fund, ARSN 133 197 501 (the 'Fund'). ACP has appointed Fairview Equity Partners Pty Ltd ('Fairview'), ABN 45 131 426 938, AFSL 329052, a specialist Australian small company equities manager, as investment manager of the Fund. An investor should consider the current Product Disclosure Statement ('PDS') for the Fund in deciding whether to acquire, or continue to hold, units in the Fund and consider whether units in the Fund is an appropriate investment for the investor, and the risks of any investment. The PDS is available from nabam.com.au or by calling the Client Services Team on 1300 738 355. The information in this report may constitute general advice. This report does not take account of an investor's particular objectives, financial situation or needs. Investors should therefore, before acting on information in this report, consider its appropriateness, having regard to the investor's particular own objectives, financial situation or needs. We believe that the information contained in this report is correct and that any estimates, opinions, conclusions or recommendations are reasonably held or made at the time of compilation. However, no warranty is made as to their accuracy or reliability. The information in this communication is subject to change without notice. All statements as to future matters are not guaranteed to be accurate and any statement as to past performance is not a reliable indication of future performance. ACP is a member in the group of companies comprised National Australia Bank Limited ABN 12 004 044 937, AFSL 230686, its related companies, associated entities and any officer, employee, agent, adviser or contractor ('NAB Group'). An investment in the Fund is not a deposit with or liability of, and is not guaranteed by the NAB Group.