Fairview Equity Partners Emerging Companies Fund

30 April 2020

FAIRVIEW EQUITY PARTNERS

Monthly 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

+0.25% / -0.25%

Number of Stocks

61

Contacts

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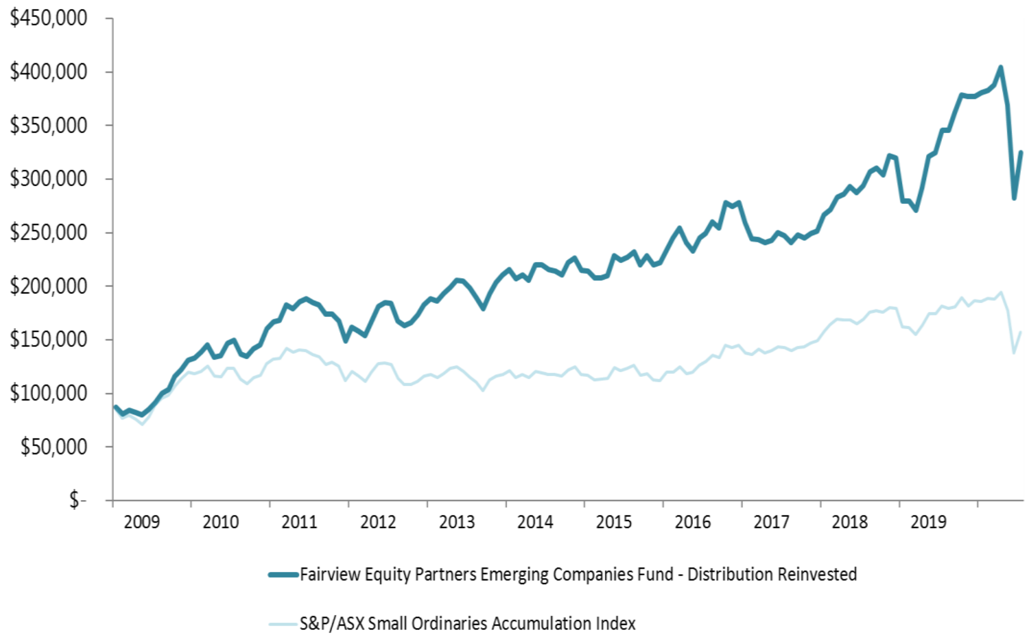
Net Performance

	1 month %	3 months %	1 year %	3 years % p.a.	5 years % p.a.	10 years % p.a.	Since inception[1] % p.a.
Fund Return[2]	15.02	-19.63	-6.05	9.58	7.43	8.05	10.73
Benchmark[3]	14.27	-19.00	-13.31	3.25	4.95	2.46	4.01
Excess Return	0.75	-0.63	7.25	6.33	2.48	5.59	6.72

[1]Fund inception date: 8 October 2008. [2]Net returns are calculated after deducting management fees and are pre-tax. [3]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.

Growth of $100,000 since inception



2019 Finalist
THE AUSTRALIAN FUND MANAGER AWARDS

Monthly Commentary – April 2020

A stunningly fast relief rally in April assisted our unitholders to record a monthly gain of over 15%. Australian equities moved higher in April as the number of active local coronavirus cases were lower than initial government modelling had forecast. The S&P/ASX Small Ordinaries rallied 11%. The Small Resources Index traded strongly, up 18% throughout the month, whilst the Small Industrials Index closed up 9.3%. Pleasingly, the Fund beat the Index in April by 0.75%, an outcome based on our investment philosophy on stock selection in a manner true to our process. In comparison, large cap stocks lagged the Index. The S&P/ASX 200 gained 5% over the course of the month on the back of speculation that a slow reopening of the economy will begin in May. Listed companies raised A$11bn from equity placements over the month, with more than 60 companies undergoing capital raisings. National Australia Bank completed the largest equity (A$3.5b) offering this year. Other large raisings were Lendlease (LLC) A$950m and Flight Centre (FLT) A$562m.

US equities moved higher over the course of April, as the number of US coronavirus cases sort of stabilized and hopes of reopening the economy increased, leading to the US share market entering a bull market after its second-shortest bear market in history. Gold traded higher throughout the month, rallying 6% and reaching US$1747/oz, its highest level since October 2012. West Texas Intermediate (WTI) Crude declined 7% over the month, hitting a stunning intra-day record low of -US$40/barrel.

So, what could happen next?
We are now in the first stages of incremental easing of lockdowns in Australia. In a year where very, few things have gone to plan, the issues below must be grappled with by the market and society at large.

The US-Sino relationship
Both countries need the other, however trade war rhetoric from the US against China is likely to ramp up until the US elections in November. Currently, Republicans and Democrats seem rather united in punishing China. There has been a swelling US-centric discussion about the impact of coronavirus on globalisation in general, and particularly about supply chains. We consider this is where China is most vulnerable.

Debt
According to the Centre for Budgetary Responsibility in the US, the US fiscal deficit will exceed US$3.8trn (18.7% of GDP) this year. This is a staggering increase when it is known that US deficits never exceeded 10% of GDP during the Global Financial Crisis. The global economy at the end of this crisis will be awash with debt. Some repayments will be delayed, some will be ripped up through default. Sovereign nations have tried and tested ways of reducing debt over time, hence we believe that higher inflation is likely in the longer term.

Lower inflation in the short term
The virus shock will deliver large hits to both demand and supply. At least in the near term, the impact of the virus is likely to be deflationary. A collapse in demand and sharp falls in travel and leisure related activities is likely to mean falling prices, particularly in the services sectors. Falling rents may contribute to this downturn. In addition, the collapse in oil prices is likely to have a large disinflationary impact. In the long run, capacity destruction that has resulted from business collapse is key. Significant bottlenecks in supply chains will fire up inflation as will various nations' appetite to reduce debt via stealth tactics.

Absenteeism
One vital issue is that a lot of workers are still nervous, whether they have elderly parents living with them or are simply naturally cautious people. We expect absenteeism will rise, and we consider the market is not factoring this in enough.

There will be digital winners - the continuation of the revolution
Technology was the main sectoral winner in the last cycle. If anything, the nature of the current crisis has only accelerated digitisation trends. Companies are more likely to move onto cloud networks and consumers are more likely to shop online. The likelihood of low bond yields and growth backdrop continues to make companies that do have growth more attractive. We will discuss this more next month. To us, there is one other clear catalyst that no one is really publicly talking enough about yet. We will hold our thoughts close around this topic for now and undertake further research.

Which sectors do we like?
For these reasons we are overweight digital disruption. One of the other bright spots for the domestic economy is agriculture. Ample rain with a low currency and fuel cost bodes well for farmers. This sector now has a more consolidated supply chain and is very internationally competitive. Domestic gold miners should benefit from the same currency and fuel cost declines as well as being aided by high US$ gold prices, hence we are also overweight that sector.

Investment Team

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Portfolio Manager
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28+ years investment management experience

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