# Fairview Equity Partners Emerging Companies Fund

28 February 2019

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**

+0.30% / -0.30%

**Number of Stocks**

51

**Contacts**

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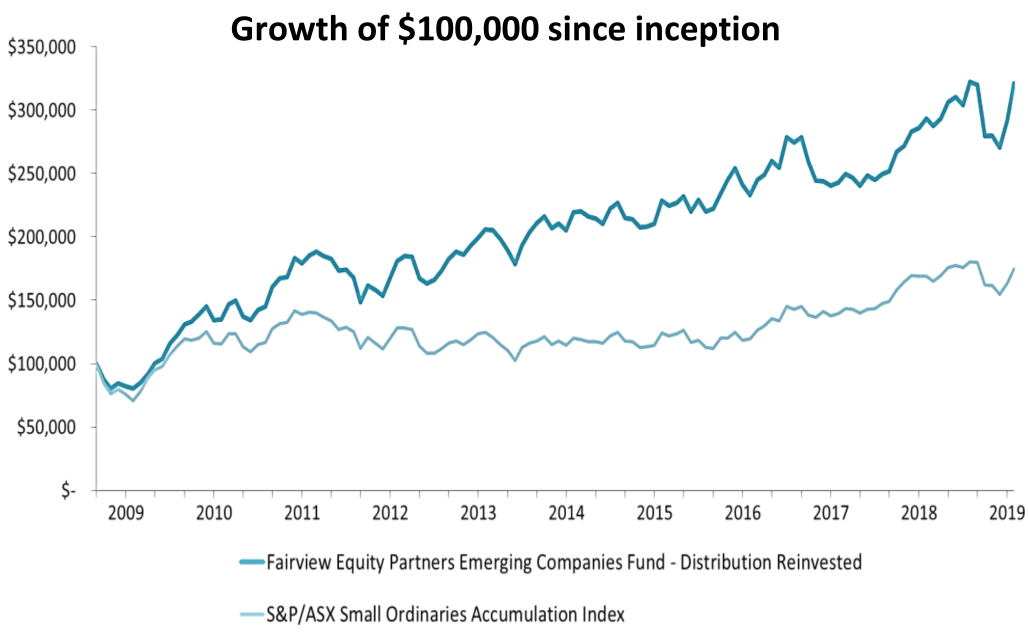
## Net Performance

| Period | 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]** | 10.12 | 14.94 | 9.47 | 11.27 | 7.90 | 14.89 | 11.88 |
| **Benchmark[3]** | 6.78 | 8.01 | 3.48 | 13.44 | 7.74 | 9.44 | 5.51 |
| **Excess Return** | **3.34** | **6.93** | **5.99** | **-2.17** | **0.16** | **5.45** | **6.37** |

[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.



## Performance and Market Outlook

**Reporting Season signed off**

In February, investors witnessed the second most volatile reporting season in the past 10 years. It truly was a stock picker's month. Fairview demonstrated solid outperformance against the Small Ordinaries Index in February.

Five stocks in the Small Ordinaries Index suffered falls of over 20%. In contrast 28 stocks rose by more than 20% - we owned 9 of these stocks. Stock specific issues won out. However, we observed that two key sectors rallied hard;
1. beaten down retailers and 2. disruptors that demonstrated the strength of their business models. Whilst industrial stocks were the focus, resource stocks also put in a credible performance with the ASX Small Ordinaries Resources Index up 5.7% in the month, just slightly behind the Small Ordinaries Industrials Index.

**Themes from February**

Again and again companies highlighted investment into technology as the key avenue in their search for cost efficiency. This drive for cost reductions is a response to a low organic earnings growth environment. The ASX top 100 stocks are forecast to deliver 4.2% EPS growth in FY20, not too bad but perhaps not enough to sustain current multiples. In contrast Fairview's universe, the ASX Small Ordinaries, is expected to produce 19% growth. The quest for growth in the large caps suggests M&A will continue. Indeed Fairview in the last days of February benefited from a proposed takeover of a recent portfolio addition, Ruralco. The bid was at a 40% premium to last trade. This is the first time in two and a half years our unit holders have enjoyed this type of event and we hope the drought has broken. We do not purchase stocks for the fund in anticipation of corporate activity but it is nice when it happens.

**Distributing franking credits? – Not yet**

One surprise was that potential 'pre Government change' capital management to distribute excess franking credits just did not eventuate. Maybe companies are waiting until the Federal election is called. Another feature of the season was profit adjustments galore from accounting standard changes. These changes often confuse the market even though almost every analyst pretends they understand them. We have always looked closely at the cash flow statement, but in periods of accounting rules changes it is scrutinised even more intensely.

**Where to now**

After such a strong market the prospect for companies to raise equity capital in the near term is heightened. We've considered this in our portfolio rebalancing. The global themes of trade dislocations and populism will probably resurface and closer to home an election that is shaping up to be fought on envy vs enterprise. It is curious which issue will prevail in a backdrop of declining house prices and a nervous consumer.

## Top Three Contributors

| Security Name | Sector | Value Added (%) |
|---|---|---|
| Appen | Information Technology | 0.72 |
| Jumbo Interactive | Consumer Discretionary | 0.48 |
| Nanosonics | Health Care | 0.47 |

**Appen (APX)** has been the 6th best performer in the ASX Small Ordinaries over the past year. A result that beat already upgraded guidance propelled the stock 47% in the month.

**Jumbo Interactive (JIN)** demonstrated superb margin leverage and management provided insight into its exciting SAAS growth option. Our thesis of greater number of jackpots due to Tatts group changing the odds last year is playing out.

**Nanosonics (NAN)** was the result we were most sweating on. Alas nervous sweat is the currency of portfolio managers. It was a truly great result with 64% growth in consumables well above our top of the market estimates.

## Top Three Detractors

| Security Name | Sector | Value Added (%) |
|---|---|---|
| Australis Oil & Gas | Energy | -0.47 |
| Mcmillan Shakespeare | Industrials | -0.39 |
| Webjet | Consumer Discretionary | -0.35 |

**Australis Oil & Gas (ATS)** reported a poor drill result for its fourth well in its initial six well drilling campaign. This has caused investors to question the viability of the Tuscaloosa Marine Shale basin. We have reduced our holding.

**McMillan Shakespeare (MMS)** result was below par, we had already halved our holding in November 2018 but it still hurt. We would speculate that a lower bid price by McMillan Shakespeare for Eclipx could be announced this month.

**Webjet (WEB)** was our one significant misstep in the February reporting season; we sold in anticipation of a softening domestic consumer. Margin leverage from the group's growing B2B hotels business was stunning. We are still worried about the domestic consumer impact on Webjet's domestic B2C business.

## Investment Team

Michael Glenane

**Portfolio Manager**
BE, MBA

27+ years' Investment Management experience

Tim Hall

**Portfolio Manager**
BComm

19+ years' Investment Management experience

Leo Barry

**Portfolio Manager**
BSA, MBA

11+ years' Investment Management experience

Leigh Cronin – *Departed 28 February 2019*

**Portfolio Manager**
BBus, ACA, GDipAppFin, FFin

19+ years' Investment Management experience