Fairview Equity Partners Emerging Companies Fund

31 March 2020

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

57

Contacts

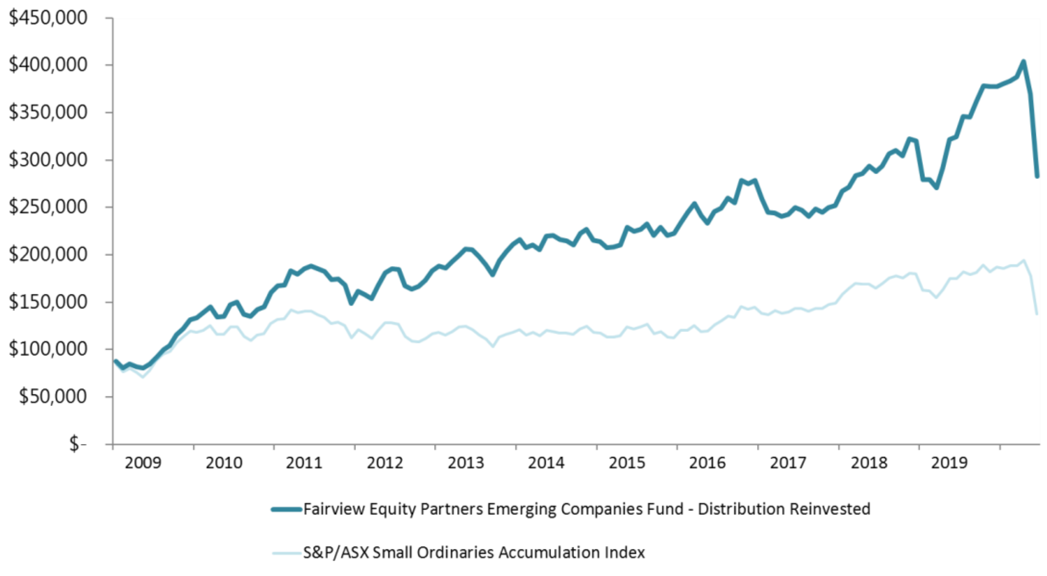
www.mlcam.com.au
fairviewequity.com.au
Email: client.services@mlcam.com.au
Client Services: 1300 738 355

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]	-23.58	-27.13	-13.01	4.17	4.71	6.75	9.47
Benchmark[3]	-22.38	-26.72	-21.02	-1.33	2.52	1.10	2.83
Excess Return	-1.21	-0.41	8.01	5.49	2.18	5.64	6.63

[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 – March 2020

A bear and bull in the one month

While the Fund outperformed the benchmark for most of March, it slipped below the benchmark as the market rallied during the final week. Overall, the Fund fell 23.58% in March, to be 1.21% behind the ASX Small Ordinaries Accumulation Index (which dropped 33% intra-month). Not the outcome we would have wished for unitholders. The Fund carried a reasonable representation of the better small cap performers, just not in a big way.

Unquestionably, it was a unique month for investors – the biggest monthly equity market fall for 33 years and we witnessed something previously not thought possible – a technical bear market (-20% fall) and bull market (+20% rise) within a month. More about the rally later.

The US President can listen…

During March we observed investors grappling with the depth and duration of this crisis as focus shifted many times. Initially a China supply strike, to a demand shock, to credit market tightening (corporate debt is priced off the credit spreads which were blowing out), to a ubiquitous global monetary and fiscal policy response to mitigate possible worst-case outcomes. Investor attention swung to examining business solvency and survival (quant screens and scenario analyses went into over-drive). Companies suspended or cancelled dividend payments and there were approximately 150 ASX listed companies who withdrew their earnings guidance, given the uncertainty. Such was the significance of the Australian government's A$130bn JobKeeper stimulus (equivalent to the nation's pre-crisis annual supermarket spend) that some economists predicted it could potentially cap the unemployment rate by a third. Pleasingly, the US President woke up to realise that this isn't a business decision he can fix, and so listened to the health experts (thank goodness) and accepted the USA couldn't re-open in time for Easter.

The intra-month bull market

The big bounce in global equity markets from 24 March was a head-scratch for many market participants. A motley crew of small cap stocks rebounded. It was possibly a combination of several factors – i) end of quarter portfolio rebalancing where asset managers upweighted their equity exposure, ii) equity managers hitting maximum cash limits, iii) hedge funds covering their short positions given the price falls, iv) investors positioning for potential deeply discounted rights issues by companies, and/or v) speculation the world was about to experience a V-shaped economic recovery with a quick rebound, and not a U or L shaped pattern. Regardless, Goldman Sachs provided a sober reminder that between September and December in 2008 there were six distinct trading periods where the US S&P500 bounced 9% or more, before the market slid further. Government fiscal stimulus announcements were the frequent driver.

Will balance sheet strength be rewarded in the short term?

No doubt, readers will be increasingly exposed to many investor adages (bear market rally, no one rings the bell at the bottom etc.) but for the near-term, we await hard economic data and a raft of earnings updates in April and May (both here and in the USA). No doubt this will prompt company balance sheet recapitalisations to continue. Small cap equity raisings have commenced (Ooh Media, Webjet, IDP Education, Kathmandu and NextDC) with positive share price reactions. But as this cycle rolls, the same won't be said for all (less than 5% raised so far on the ASX vs $100bn during the GFC, but maybe, the banks will be more forgiving this time). As a consequence, the Fund holds higher cash levels.

A tailwind for some companies

Company contact has been elevated and the plethora of broker-sponsored conference calls lines are at their limit. Several portfolio companies are beneficiaries of the change in world behaviour (think food, respirators, business continuity). The key decision-making disappointment for the Fund during the month was that we weren't quick enough to sell a larger portfolio weighting, Credit Corp, which fell 60%. While no one knows what the next 6-12 months looks like, we have a list of potential targets for a variety of economic scenarios and will continue to actively manage unitholders' money.

Over the quarter, the ASX Small Ordinaries Accumulation Index underperformed the ASX100 Accumulation Index by 3.7%. Interestingly, in the 14 months prior to reaching the GFC bottom on 9 March 2009, the 'Small Cap' stocks underperformed their larger peers by 12%, but outperformed over the next 12 months by ~20%. This is not a prediction, but an interesting reference point.

A testing time

Finally, with the world awaiting positive news on vaccines and treatment, in the short-term all eyes are watching for the widespread availability of quick, effective COVID-19 testing. Who would have ever thought the word 'test' might make the world smile?

Stay sane, stay healthy.

Investment Team

Michael Glenane

Portfolio Manager
BE, MBA
28+ years investment management experience

Tim Hall

Portfolio Manager
BComm
22+ years investment management experience

Leo Barry

Portfolio Manager
BSA, MBA
13+ years investment management experience