Fairview Equity Partners
Monthly Combined Investment Report

31 May 2017

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 May 2017	1 Month	3 Months	1 Year	3 Years p.a.	5 Years p.a.	Since inception#
Fairview Emerging Companies Fund*	-2.41%	-0.50%	-6.39%	5.93%	10.51%	14.11%
S&P/ASX Small Ordinaries Accumulation Index	-2.05%	0.31%	3.56%	6.04%	4.22%	3.98%
Excess Return*	-0.36%	-0.81%	-9.95%	-0.11%	6.29%	10.13%
Net Fund Return (after fees & expenses)	-2.49%	-0.78%	-7.43%	3.94%	7.55%	10.70%

** Returns shown are gross at a manager level (pre fees).*
 # 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

On the domestic front The Reserve Bank of Australia left the cash rate unchanged at 1.5%, as expected and noted that slow wage growth is likely to persist. Retail sales in March (reported in May) remained weak with nominal sales contracting 0.1%. In addition, February's retail sales print was revised down to -0.2%. Employment increased by 37.4k positions in April with the unemployment rate slipping back to 5.7%. Building approvals slumped 13.4% in March relative to the prior corresponding period, driven by lower higher density (-22%) and detached dwelling (-5%) approvals.

The S&P/ASX Small Ordinaries Accumulation Index was down -2.1% in May, outperforming the S&P/ASX 100 by 0.7%. Small Industrials were down -2.8% with Small Resources rising 1.6% after recent weakness. Iron ore had another tumultuous month with the metal sliding by a double-digit percentage (-17.1%) for the third month running. A spike in Chinese Interbank Lending Rates (SHIBOR) early in the month triggered a sharp sell-off as concerns grew that there could be a negative spill over into the real economy. The consumer discretionary sector (-4.1%) continues to demonstrate weakness coupled with falling wages growth, cost of living inflation and broadening credit rationing leaves us cautious on the Australian consumer. While retailer share prices look depressed, we see few catalysts for a re-rating as earnings risks remain elevated.

Within the broader small cap universe the top performers in the month were skewed towards Telcos and IT. Netcomm Wireless (NTC, +32%) was the best performer following the appointment of two nonexecutive directors and a broker upgrade. Wisetech Global (WTC, +24%) rallied after a well-received investor presentation which it indicated they had seen strong momentum continue in the second half of the financial year. Isentia (ISD, +22%) also rallied post confirming that financial year revenue & EBITDA were in line with broker estimates.

The worst performers in the month were skewed towards healthcare. Telco retailer Vitagroup (VTG, -57%) fell sharply following the announcement that Telstra will further reduce the commercial remuneration arrangements. Sigma (SIG, -35%) declined sharply after flagging weaker trading conditions and legal dispute with one of its major customer Chemist Warehouse & Mesoblast (MSB, -33%) fell sharply after releasing its 3Q results.

The month of May was another busy period on the road for the Fairview team. As well as continuing our rigorous ongoing company visitation schedule, taking us to several states, we also attended a number of broker hosted conferences to meet with numerous company management teams, gain better insights into the underlying economy and identify solid investment ideas. Several of these discussions led to activity within the portfolio whilst others remain under active review.

It has certainly been a volatile start to the year for certain market segments (retail) but we remain confident that our portfolio is well positioned to benefit from the focus back towards quality small cap growth stocks. We continue to favour high quality businesses that are demonstrating the ability to grow well independent of economic cycles or have offshore earnings.

Performance Attribution

We highlight below the largest positive and negative relative performance contributors during May 2017.

Positive Contributors		Negative Contributors	
Corporate Travel	Overweight	Vita Group	Overweight
Webjet	Overweight	Mayne Pharma	Overweight
Sigma Health	Nil Holding	Beacon Lighting	Overweight
Magellan Financial	Overweight	CSR	Overweight
Sandfire Resources	Overweight	Nanosonics	Overweight

Contributors

Corporate Travel (CTD) was up strongly after they provided a superb trading update confirming underlying EBITDA is now expected to be at the high end of the guidance range ''as a minimum''. We see upside risk to these numbers as they continue to win market share at an accelerated rate which implies good momentum into financial year 2018. **Webjet (WEB)** was a strong contributor in May but with no major news announcement during the month only renewed interest in the story may explain the rally in the share price. We are still very enthusiastic about the opportunity in front of Webjet in the B2B hotel room space and domestically they continue outperform the B2C market growth through market share gains. **Sigma Healthcare (SIG)** declined sharply after flagging a weaker trading environment and also a legal dispute with one of its major customers Chemist Warehouse. We have no exposure in the fund. **Magellan Financial (MFG)** continues to benefit from solid fund inflows and improved fund performance. **Sandfire Resources (SFR)** had no company specific news announcements in May but continued its share price strength following March quarter result beat on costs and an improved copper price environment.

Detractors

Vitagroup (VTG) in May provided a disappointing trading update and disclosed further remuneration changes with Telstra. They also expect to see changes to its network of Telstra stores, which provided uncertainty around future years revenue visibility. This was a real game changer for us and with further possible risks around store footprint and negative impacts from more remuneration changes we exited the position. **Mayne Pharma (MYX)** had a difficult month, after highlighting price deflation in some generic products from the recent Teva acquisition. This had been caused by buyer consolidation in the US and drove higher than normal price adjustments in product renegotiations. Despite the price declines, the gross profit margin on the Teva portfolio remains ahead of the 50% gross margin guidance provided at the time of the acquisition. On a positive note, volumes of the leading generic product Dofetilide have continued to grow. **Beacon Lighting (BLX)** was weaker as the market digested some negative read-throughs from industry peers. Dulux indicated they had seen the Australian renovation and repaint market decline -1.5% and Bunnings 3rd quarter same store sales growth slowed supporting the softening view on the housing construction market and a potential pull forward of demand from the Master clearance sales last year. **CSR (CSR)** announced their full year 2017 result which was at the top end of their guidance range but slightly missed broker consensus expectations. Notably the outlook statement for building products was less positive due to a slow-down in housing construction activity. **Nanosonics (NAN)** share price declined with no company news or market announcements in May.

Top Ten Holdings

We highlight below our top ten holdings within the portfolio, in alphabetical order as at 31 May 2017

Bapcor Ltd	IDP Education Ltd
Charter Hall Group	Mayne Pharma Group Ltd
Corporate Travel Management Ltd	Regis Resources Ltd
Costa Group Holding Ltd	Sandfire Resources Ltd
Credit Corp Group Ltd	Webjet Ltd

Number of stock holdings as of 31 May 2017	57

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