

Fairview Equity Partners Emerging Companies Fund

31 May 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

54

Contacts

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Client Services: 1300 738 355

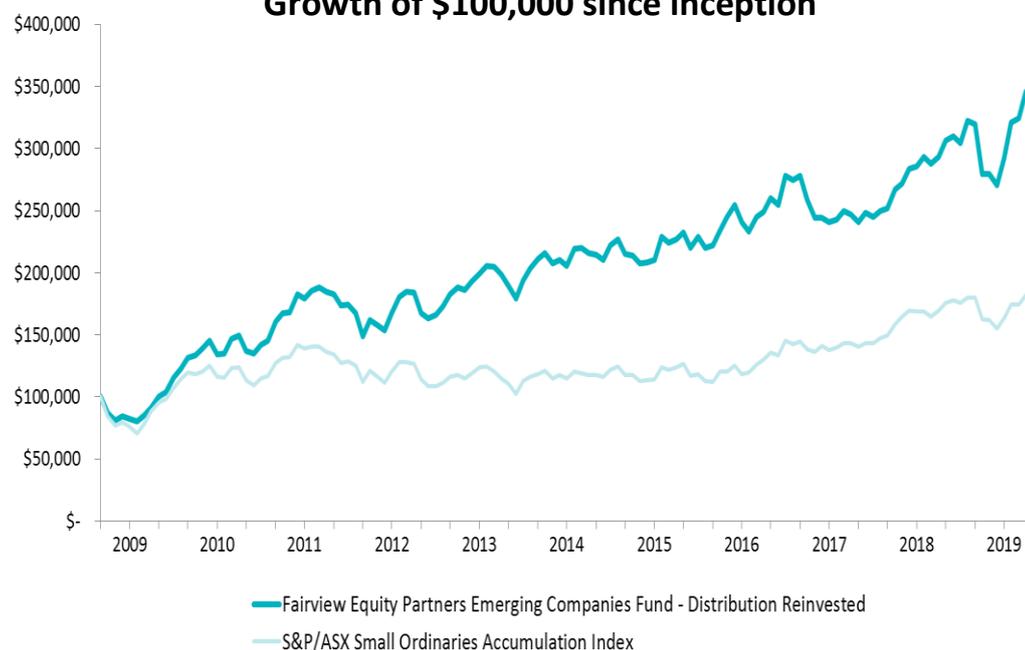
Net Performance

Period	1 month %	3 months %	1 year %	3 years % p.a.	5 years % p.a.	10 years % p.a.	Since inception ¹ % p.a.
Fund Return²	-0.08	7.54	12.69	9.93	10.01	13.19	12.35
Benchmark³	-1.25	2.69	2.06	9.85	8.82	6.53	5.64
Excess Return	1.17	4.85	10.63	0.08	1.19	6.66	6.71

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

³Benchmark: 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



Performance and Market Outlook

Strong performance in a tough May market

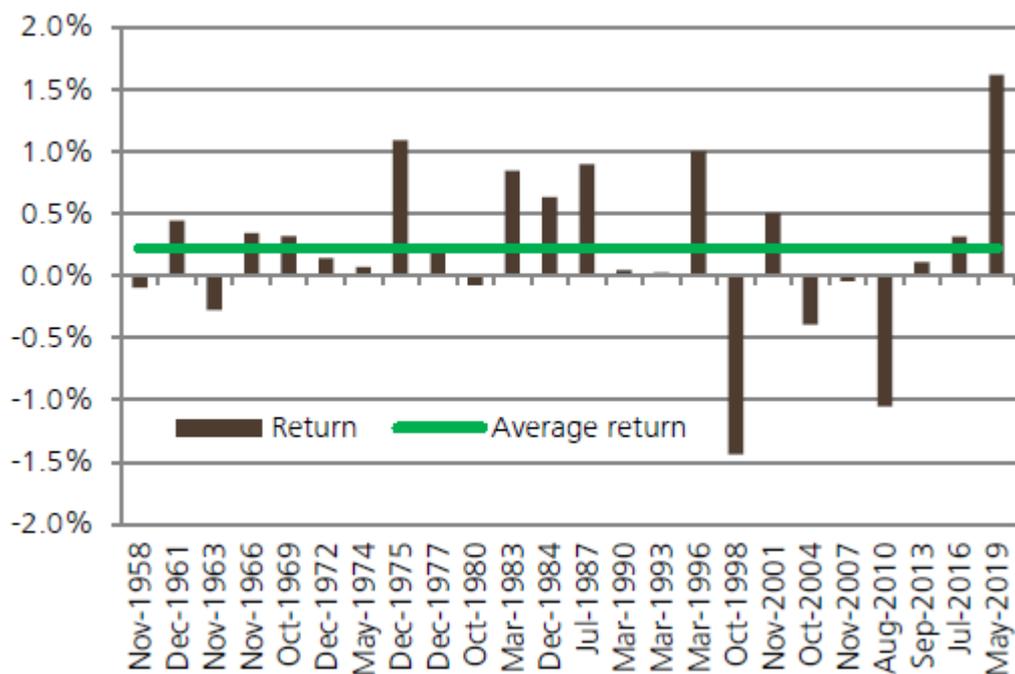
The fund performed strongly during May delivering a 1.2% excess return above the ASX Small Ordinaries Index, which fell 1.3%. It was the seventh consecutive month of outperformance for the fund with a pleasing 10.6% alpha delivered over the last year. Since inception, the fund has outperformed the benchmark by 6.7%.

Domestic news dominates

It was a big month for macro and corporate news. The Trump Trade war is undoubtedly back on, forcing many overseas equity markets and bond yields lower (US Government 10 year bond at the lowest level for 18 months). A highlight amongst the key indices was the bank-driven buoyancy (Bank sector +3%) of the Australian market (ASX100 +1.5%).

The surprise Liberal Government election victory (a 15% chance according to the odds) prompted a major relief rally in Australian domestic Consumer and Property-exposed stocks, a clear sign of the concern Labour Government's cloud of class division had cast. The extent of the equity market rally is evident in the following chart that shows it was the best performance for a post-election trading day for the last 24 elections by a decent margin.

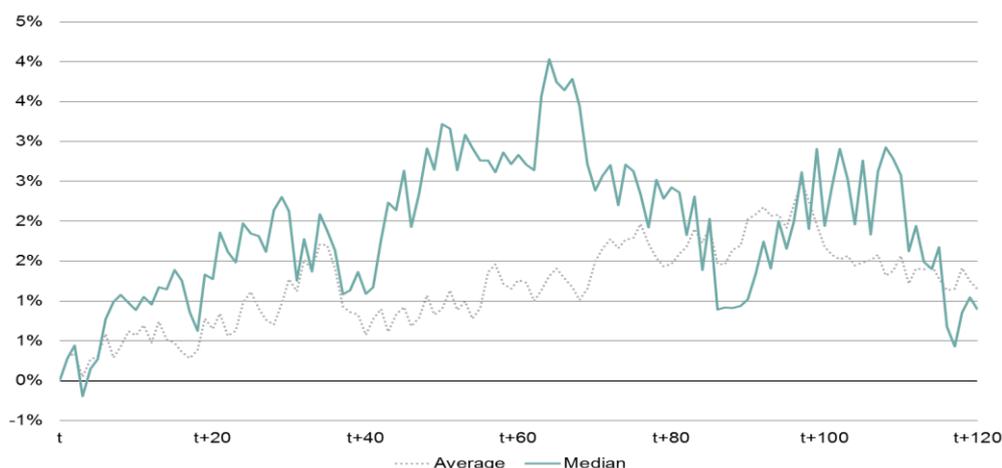
Figure 1: Returns one trading day post-election



Source: UBS Global Financial Database. Reprinted with permission from UBS Securities Australia Ltd. Australia Equity Strategy; “Elections and Equities: Sectors and Styles” by Paul Winter, Pieter Stoltz, and Jim Xu, May 2019.

Several businesses across the Auto, Media and Property sectors have already observed a notable change in consumer and business behaviour. Clearly APRA’s relaxation on home loan lending criteria and the prospect of the RBA’s first interest rate cut in 32 board meetings (since August 2016) has also aided sentiment. Observing the sustainability of this behaviour will be essential but over the last quarter, we’d progressively reduced the fund’s underexposure to the domestic consumer and property sectors, and this trend continued in May. Finally on the topic, UBS’s chart comparing the Small Cap versus Large Cap returns in the quarter following a Federal Election caught our interest – it shows ASX smaller companies have historically outperformed its larger cap peers over this time period.

Figure 2: Small Caps vs Large Cap relative return: Post Federal Election



Source: UBS Global Financial Database. Reprinted with permission from UBS Securities Australia Ltd.

M&A and downgrades in May

Often it's not what you own, it's what you don't own that can deliver relative investment performance. Fortunately for Fairview unitholders it was a tidy blend of both for May. We started the month nicely with Wesfarmer’s re-diversification away from Retail manifesting in a bid for Kidman Resources (KDR) at a ~50% price premium. The bid by Wesfarmers came just 3 weeks after its proposed acquisition of rare earth producer, Lynas Corporation (+54%). Pursuing potential takeover targets is not part of our investment process but when it happens it’s a welcome addition. KDR is the 2nd takeover of a portfolio holding for the fund in 4 years. M&A activity continues to feature prominently due to low interest rates and high levels of cash amongst Private Equity.

As anticipated, company profit warnings were a key feature during the month of May. Looking across the ASX Small Companies, there were 30 companies that experienced a greater than 2% negative analyst earnings downgrade in May. Pleasingly, we avoided Costa Group (share price -35%), BWX (-23%), Mayne Pharma (-20%), Technology One (-18%), Seven West Media (-10%), Huon Aquaculture (-2%) and mid-cap stocks Reliance Worldwide (-24%) and Link Administration (-21%). Several of these companies had featured in the fund within the last two years. Costa Group, the last portfolio holding, we exited after the FY18 result at a share price well above current levels. We really like Costa management and its blend of assets, but this month’s 15% profit warning (the 2nd in 6 months) is possibly not the last, and a stark reminder of the company’s inherent agricultural risk.

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

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.