Fairview Equity Partners
Monthly Net Investment Report

31 October 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 October 2017	1 Month	3 Months	1 Year	3 Years p.a.	5 Years p.a.	Since inception#
Fairview Emerging Companies Fund*	5.97%	9.04%	3.03%	7.63%	7.23%	11.45%
S&P/ASX Small Ordinaries Accumulation Index	6.02%	10.32%	14.58%	10.48%	6.06%	5.19%
Excess Return*	**-0.05%**	**-1.28%**	**-11.55%**	**-2.85%**	**1.17%**	**6.26%**

** Returns shown are net of fees at a manager level (pre-tax)*
 # 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

Overall, global equity markets had the strongest month in October since July 2016. Asian markets lead the charge (Nikkei 225 +10.5%, Korean Kospi +6.2%, Hang Seng +3.5%), European markets were bouyant (DAX 5.0%, STOXX 50 +2.9%, FTSE 100 +1.6%), whilst big name US technology stocks (Amazon, Apple, Microsoft all up 10%+) drove the NASDAQ 3.4% higher vs the S&P500 up 2.4%. Domestically, the S&P/ASX 200 closed the month +4.1%, challenging the year-high level set in April.

Within the domestic market the S&P/ASX Small Ordinaries Accumulation Index rose solidly during the month of October (+6.0%), and continued the recent outperformance relative to its larger cap peers (S&P/ASX 100 +3.8%). The Small Industrials had a stronger month (+5.9%), but for the 4th successive month, was still beaten by the Small Resources (+6.5%). An anticipated proliferation of electronic vehicles and renewable energy batteries remain a key feature of this commodity rally, driving nickel and cobalt both up 20%+ over the rolling 3 month period.

Of the Small Ordinaries Index, Consumer Staples was the standout sector, up 17.3% with Bellamy's (BAL), Blackmores (BKL) and a2 Milk (A2m) all featuring in the top 5 best performers during the month. Bellamy's (+60%) released a positive trading update, alleviating some concerns about its distribution management, Blackmores (+35%) continued its share price recovery providing a positive Q1 trading update, while a2 Milk (30%) encouraged investors with its 3rd party manufacturer receiving critical registration from the Chinese authorities. CleanTeq (CLQ), the 2nd best index performer (+53%), upgraded both its cobalt reserve and grade, pushing broker valuations higher. Profit warnings all affected the weaker stocks during the month with Isentia (ISD) -44%, and Vita Group (VTG) -24%, both continuing to disappoint the market, due to a problematic acquisition finally being shut down, and delayed availability of the iPhone X, respectively. Thorn Group (TGA), -28%, pointed towards a soft consumer retail trading environment. Overall, the month saw an equivalent number of earnings upgrades to downgrades.

Domestically, October saw the RBA leave interest rates unchanged for the 13th successive meeting in a backdrop of higher employment, but weaker than expected inflation (higher electricity costs a feature) and retail sales. It's now 7 years since the last interest rate rise. Globally, further improvement in world economies and sentiment continues, with heightened geopolitical risk and suppressed sharemarket volatility remaining. Given the upward bias to interest rates, we observe the relative financial strength of Australian smaller companies compared to a decade ago with the median net debt to shareholders funds of the Small Ordinaries Index today at half the 60% level of 10 years ago. This demonstrates the benefits of lower cost funding as well as a far more conservative corporate attitude toward acceptable levels of financial leverage (the balance of debt vs equity). M&A and capital raisings were a feature during October 2017 with 3 deals each exceeding $300m (Beach Energy, Nufarm and Worley Parsons) and signs the post-Private Equity IPO market is nudging the door open, with most opportunities toward the lower end of the market cap spectrum.

November is again a busy month, with the team attending a number of broker-sponsored Conferences presenting good management access to existing and potential investment candidates, while also closely watching AGM announcements for company earnings direction. So far, the AGM commentary has either been non-specific, or, has largely left earnings guidance unchanged. Interestingly, US company earnings continue to be strong, with, at the time of writing, ¾ of the S&P500 companies having reported their Q3 results with 75% exceeding earnings expectations.

Overall, whilst our resolute objective to generate a return in excess of the broader market remains, given the fund kept up with the Small Ordinaries Index in such a strong month, internally we view this as a satisfactory performance, but look to build on this in the coming months.

Performance Attribution

We highlight below the largest positive and negative relative performance contributors during the month of October 2017.

Positive Contributors		Negative Contributors	
BWX	Overweight	a2 Milk	Nil holding
Medical Developments	Overweight	Nearmap	Overweight
Catapult Group	Overweight	Blackmores	Nil holding
Reliance Worldwide	Nil holding	Bellamy's Australia	Nil holding
West African Resources	Overweight	IDP Education	Overweight

Contributors

BWX (BWX) continued its recent expansionary phase by buying a key US natural skincare company to strengthen its US footprint and accelerate its strategic objectives. BWX raised $100m in new capital with the transaction anticipated to be 10% accretive to FY18 earnings. Importantly, management have shifted their focus towards integration and the realisation of revenue and cost synergies from the acquisitions. With BWX's key Sukin skincare product continuing to sell well domestically, we monitor sales penetration into the grocery channel, and anticipate positive newsflow surrounding further organic International growth opportunities.

Medical Developments (MVP) rewarded investors with positive newsflow surrounding further adoption of its Penthrox 'green whistle' pain relief product. In the UK it is now recommended that all ambulance medical staff use the 'green whistle' for adults with moderate to severe pain. Following a 2 year process, MVP also received regulatory approval to start selling Penthrox into Mexico, a market with 5x Australia's population. AGM commentary highlighted potential for additional market adoption, as well as progress with several other internal initiatives. With a tightly held share register, a partial selldown by a large shareholder was welcomed by the market.

Catapult Group (CAT) share price regained some of the post FY17 result weakness with a quarterly release that demonstrated an improved cashflow performance. This eased possible concerns the company may be cum-capital raising in the short term. With no operational metrics provided, revenue estimates remain unchanged but some analysts believe OPEX growth may not be as severe, while CAT continues to penetrate the professional sports analytics market and expands into the embryonic prosumer segment.

Reliance Worldwide (RWC). As the market continues to grapple with product substitutes to RWC's flagship plumbing product, Sharkbite, as well as its shelf position in a major US retailer, the share price fell 5% amidst an increasing copper price, a key input. Toward the end of the month, the company's AGM flagged consistent FY18 earnings guidance suggesting prices rises and cost savings may be used to offset any inflationary pressure. RWC is not held in the fund.

West African Resources (WAF) impressed the market with further high grade drilling results and a resource upgrade of its gold deposit situated in Burkina Faso, West Africa. Also assisting the share price was a broker research initiation with a price target well above the current level. With the commencement of the dry season, the market's attention now shifts to a heightened level of drilling activity.

Detractors

a2 Milk (A2M) The share price continued to climb following the late September approval of A2M's 3rd party manufacturer's facilities in New Zealand. This wasn't expected until later this year, and was a key business risk. The approval allows continued export of A2M's infant milk formula into the Chinese market. We do not hold shares in A2M, currently the largest index constituent, and just 1 of 3 companies to be 3%+ of the index since 2009.

Nearmap (NEA) ended lower after a month of no company news flow, comparatively low trading volume, and high intra month share price volatility. We remain attracted to NEA's ability to internally fund US expansion from their highly profitable Australian business.

Blackmores (BKL): Following a severe downwards earnings revision cycle, BKL is showing signs of earnings recovery. The share price rose strongly into the quarterly update and continued as investors remained comfortable with their direct selling to a strong Chinese consumer demand, offsetting a challenged Australian retail sector and crimping expectations of a short term margin recovery. We do not hold shares in BKL.

Bellamy's (BAL) eased concerns early into the financial year by demonstrating better distribution control of its infant formula into the Chinese market via a very positive trading update. FY18 earnings were upgraded and short interest continued to fall. A little behind A2M and its partner, BAL is still yet to lodge its application to the Chinese regulators. In our view, this approval remains a material risk for the business. We do not own shares in BAL.

IDP Education (IEL) has been a strong performer since the start of the year and gave back some of the gains in a month with no significant update from the AGM, or material move in its key FX exposures.

Top Ten Holdings

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

Ausdrill Ltd	IDP Education Ltd
BWX Ltd	Mineral Resources Ltd
Corporate Travel Management Ltd	Regis Resources Ltd
Costa Group Holding Ltd	Sandfire Resources NL
Credit Corp Group Ltd	Webjet Ltd

Number of stock holdings as of 31 October 2017	**57**

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