

Fairview Equity Partners Monthly Investment Report January 2014



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 January 2014	1 Month	3 Months	1 Year	3 Years p.a.	5 Years p.a.	Since inception [#]
Fairview Emerging Companies Fund*	-2.40%	-4.74%	6.44%	8.58%	24.24%	18.72%
S&P/ASX Small Ordinaries Accumulation Index	-2.76%	-5.49%	-7.39%	-6.17%	8.57%	2.60%
Excess Return*	0.36%	0.75%	13.83%	14.75%	15.67%	16.12%
Net Fund Return (after fees & expenses)	-2.50%	-4.96%	3.01%	4.60%	20.09%	14.49%

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

Annualised. Fund incepted 8 October 2008

Past performance is not a reliable indicator of the future performance.

The benchmark Small Ordinaries Accumulation Index came off over 2% during January after some significant downgrades from a couple of the larger retailers.

Performance and Market Outlook

Apart from ongoing macro challenges the key issues impacting smaller domestic equities at present are the continuing spate of IPO's, less attractive valuations and finally some reasonable pre-reporting earnings downgrades in the retail and mining services sectors.

To date we haven't been particularly impressed by either the quality or the pricing of most of the IPO's that have come to the market in the last few months. Accordingly we have only taken modest positions in a select few of them. However this substantial IPO activity has materially increased the supply of equities and this has resulted in weaker stock prices generally. Given the large pipeline of IPOs slated for listing this can be expected to be an ongoing factor.

Valuations for smaller industrial stocks are now at historically elevated levels with current price earnings ratios now comparable with the highs reached just before the GFC. Coupled with a continuing absence of material earnings growth it is difficult to see valuations climbing higher. Although the pre-reporting season downgrades were quite subdued the downgrades from prominent retailers such as the Reject Shop and Super Cheap Auto unsettled the market.

In our view the domestic economy courtesy of low interest rates still remains supportive for retail, media and construction sectors and generally we are expecting the interim reporting season to be mildly positive. The key negative remains the ongoing decline of mining related industries and the impact on employment that this will have.

Performance Attribution

We highlight below the largest positive and negative relative performance contributors during the month of January 2014.

Positive contributors		Negative contributors	
Sirtex Medical Limited	Overweight	Red Fork Energy Limited	Overweight
REA Group Ltd	Overweight	Super Retail Group Limited	Overweight
JB Hi-Fi Limited	Not Held	Carsales.Com Limited	Overweight
G8 Education Limited	Overweight	Decmil Group Limited	Overweight
Karoon Gas Australia Ltd	Not Held	CSR Limited	Not Held

Number of stock holdings at 31 January 2014:

57

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