

Fairview Equity Partners Monthly Investment Report July 2013



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 July 2013	1 Month	3 Months	1 Year	3 Years p.a.	Since inception [#]
Fairview Emerging Companies Fund*	8.27%	-1.96%	21.54%	15.31%	19.12%
S&P/ASX Small Ordinaries Accumulation Index	9.81%	-1.94%	4.16%	-0.59%	2.55%
Excess Return*	-1.54%	-0.02%	17.38%	15.91%	16.57%
Net Fund Return (after fees & expenses)	8.24%	-2.36%	16.39%	10.87%	14.73%

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

Annualised. Fund inception 8 October 2008

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

During July the benchmark Small Ordinaries Accumulation Index rose almost 10% and this was driven primarily by the Small Resources sector which rose almost 24% after many months of very weak performance.

Performance and Market Outlook

We have highlighted for some time now our commitment to maintaining sufficient exposure to the resources sector in order to participate in rallies such as the one we have just had in July. The under-performance we recorded in July was not a portfolio structural issue but rather it was primarily due to our holding in McMillan Shakespeare (ASX code: MMS) which fell 50% during the month. We further discuss our latest thinking on this stock below given it is currently generating a lot of investor interest.

The prospect of adverse FBT regulatory change has always been a risk for this company although post the findings of the Henry Review we were far less concerned. The Henry Review (that was commissioned by the Labour government) recommended the status quo be maintained for FBT with regard for novated car leases (a large earnings contributor for MMS). This recommendation was accepted by the government and we therefore considered it to be a benign issue for the foreseeable future. We were thus considerably surprised (as was the entire motor industry) by the cavalier change to this policy.

Pleasingly for MMS the Liberals have given an undertaking not to support the proposed changes and thus the election result becomes critical for the company. Should the Liberals win the business should recover its novated leasing volumes after what will be a highly disruptive start to the FY14 year. Our position in the Fund was substantially (and involuntarily) reduced by the large price fall and we are happy to maintain this lower weighting going into the election and then re-consider our position post that.

Overall this event was obviously a disappointing development and demonstrates that there are no bullet proof companies in even what appear to be the most defensive business models. The key as always is to maintain adequate diversity and tight portfolio controls. We are presently on the cusp on another reporting season and we are anticipating a fairly subdued outlook to be presented by most of the small cap industrial stocks.

Performance Attribution

We highlight below the largest positive and negative relative performance contributors during the month of July 2013.

Positive contributors		Negative contributors	
Mayne Pharma Group Ltd.	Overweight	Mcmillan Shakespeare Ltd.	Overweight
Independence Group NL.	Overweight	Ainsworth Game Technology Ltd.	Overweight
Papillon Resources Ltd.	Overweight	Red Fork Energy Ltd.	Overweight
Drillsearch Energy Ltd.	Overweight	Amcom Telecommunications Ltd.	Overweight
REA Group Ltd.	Overweight	Linc Energy Ltd.	Not Held

Number of stock holdings at 31 July 2013:	55
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