

# Fairview Equity Partners Emerging Companies Fund

31 December 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

+0.25% / -0.25%

## Number of Stocks

57

## Contacts

[www.mlcam.com.au](http://www.mlcam.com.au)

[fairviewequity.com.au](http://fairviewequity.com.au)

Email: [client.services@mlcam.com.au](mailto:client.services@mlcam.com.au)

Client Services: 1300 738 355

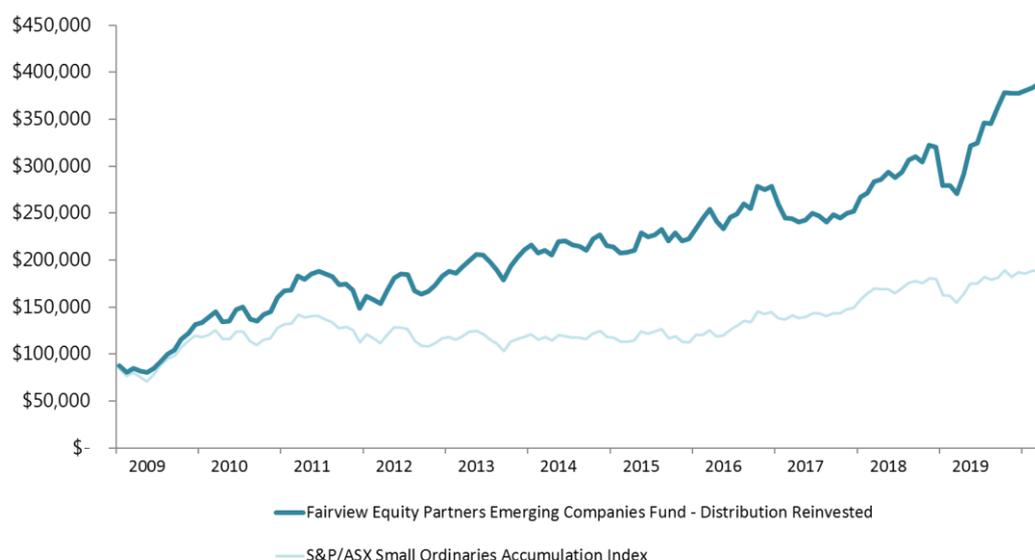
## Net Performance

Period	1 month %	3 months %	1 year %	3 years % p.a.	5 years % p.a.	10 years % p.a.	Since inception <sup>1</sup> % p.a.
Fund Return <sup>2</sup>	1.17	2.68	43.12	16.69	13.25	10.32	12.82
Benchmark <sup>3</sup>	-0.29	0.76	21.36	9.98	10.65	4.13	5.79
Excess Return	1.46	1.92	21.76	6.71	2.60	6.19	7.04

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

<sup>3</sup>Benchmark: 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



2019 Finalist



## Monthly Commentary – December 2019

### A solid end to a solid year

The Fund ended the year strongly outperforming the benchmark by 1.46% in December (net of fees). The ASX Small Ordinaries Index fell 29bps while the Fund finished the year 1.17% higher. Overall, the Fund performed very well in 2019 to finish the year 43.1% higher in absolute terms and 21.8% better than the Index. Pleasingly, the three-year outperformance is consistent with the 11-year record. We strive to do better.

The month saw some large share price falls with the worst seven small cap performers (>-15%) all affected by earnings downgrades (AMA Group, Jumbo Interactive, Perenti Global [Ausdrill], Regis Healthcare, Sigma Healthcare, Smartgroup and Viva Energy). The Fund avoided all but one of these stocks (we had a modest position in Perenti). Our reason to exit our Jumbo Interactive investment in August was vindicated. Also, noteworthy during the month was a slight recovery in the \$A and an uptick in the 10-year bond yields.

### Small Industrials shone in 2019

A key feature of the ASX Small Cap sector over 2019 was the stark outperformance of the ASX Small Industrials when compared to the ASX Small Resources Index. Despite strong gains in the prices of gold (seven-year high), iron ore and oil (started the year at \$US45), the ASX Small Industrials' outperformance (~15%) was the most extreme for five years. Despite this, Resources delivered the second-best outperformance for the Fund over the year. As in 2018, the technology sector was once again the year's strongest performing ASX Small Cap sector, led by Megaport. Along with Polynovo, they were both amongst the three best index performers despite being pre-earnings. The three worst index performers all fell 80%+ for different reasons: Blue Sky Alternative Investments for curious accounting practises, Metals X due to a tricky copper mine and ARQ Group due to a troubled corporate reorganisation and stretched balance sheet. What a year it was – inverting bond yields, the enduring US-China Trade War and domestically, the surprising Liberal Federal election victory and three interest rate cuts to historically low levels. It's amazing to consider this time last year the US Federal Reserve was in a rate raising mood.

### The last decade...

But before we look to 2020, let's quickly reflect on the passing of another a decade (they go quickly). Of the January 2010 small cap constituents, half remain ASX-listed while 20% still feature as today's small caps. A whopping 75 companies were M&A targets contributing to the biggest change to the Small Cap benchmark over the last decade - the shrinkage of the Resources sector (the Energy's sector index weight is down 75%). Financials, Consumer Discretionary, Property Trusts and Technology have markedly grown their benchmark weight.

### ...highlights the role for active Small Cap investing

But most telling, and a sober reminder for the role of active small cap stock picking, is the five best Small Cap performers from the January 2010 'class' (all owned by Fairview at various stages) have delivered returns ranging 200-600% (Resmed, Service Stream, Ramsay Healthcare, Charter Hall and Carsales.com) while 10% of the companies from that vintage lost 90%+ of their shareholders' money (Resource names featured prominently).

### 2020 focus

Our attention turns to 2020 where we note the current ASX Small Ordinaries PE relative to the ASX100 to be consistent with the 10-year average. On a macro level, we currently observe record global private equity cash levels at \$US1.5 trillion (suggesting more M&A), record low interest rates in many countries (2019 was a stark reminder the cost of money does matter to asset values), benign inflation, improving sentiment towards a US-China trade war resolution, a forthcoming US election, unstable US vs Iran relations and muted domestic household consumption growth despite a backdrop of rising house prices. While our focus remains on investing in quality businesses that are growing earnings at a reasonable valuation, it all presents for another interesting year for investors.

Our thoughts are with all those affected by the bushfires.

## Investment Team



Michael Glenane

**Portfolio Manager**

BE, MBA

28+ years investment management experience



Tim Hall

**Portfolio Manager**

BComm

22+ years investment management experience



Leo Barry

**Portfolio Manager**

BSA, MBA

13+ 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 [mlcam.com.au](http://mlcam.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.