MONEY|MANAGEMENT
FUND MANAGER OF THE YEAR 2020
AUSTRALIA'S FIRST INDEPENDENT AND WHOLE OF MARKET AWARDS
WINNER
Australian Small/Mid Cap Equities

Fairview Equity Partners Emerging Companies Fund

31 December 2023

FAIRVIEW EQUITY PARTNERS

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 Total Return 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

55

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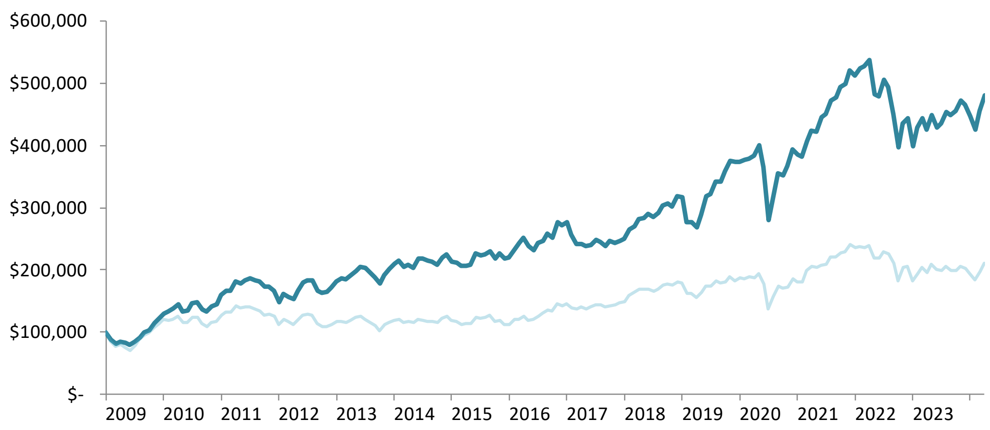
Net Performance

	1 month %	3 months %	1 year %	3 years % p.a.	5 years % p.a.	10 years % p.a.	Since inception[1] % p.a.
Fund Return[2]	5.47	7.35	12.83	4.29	12.34	8.68	10.84
Benchmark[3]	7.23	8.52	7.82	0.95	6.40	6.01	5.03
Excess Return	-1.76	-1.17	5.01	3.34	5.94	2.67	5.81

[1]Fund inception date: 8 October 2008. [2]Net returns are calculated after deducting management fees and are pre-tax. [3]Benchmark: S&P/ASX Small Ordinaries Total Return 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



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Monthly Commentary – December 2023

The Fairview Emerging Companies Fund delivered a 5.47% return in December, to be 12.83% higher over 2023. The Small Ordinaries Total Return Index surged 7.23% over the month, completing a strong end to finish the year nicely in the positive, up 7.82%.

While the fund struggled to keep pace in December, over the year, it delivered a return that was 5.01% higher than the benchmark.

Jerome dressed as Santa
At the start of the month Federal Reserve Chairman Jerome Powell lit up equity markets when market pundits latched onto a subtle change in his tone from describing Fed Reserve policy as "restrictive" in a speech several weeks earlier, to now describing their policy as "well into restrictive territory". This was interpreted as rate cuts were close and a hard economic landing was likely to be averted (according to Bloomberg a third of US forecasters still anticipate a recession). A year-end rally in interest rate sensitive stocks occurred, with strength seen in such underweight sectors as Consumer Discretionary and REITs, as well as equity market beta names such as the listed fund managers. As observed in recent years, for a bottom-up stock picking fund, it can be these sudden capital rotations which can cause short term slippage vs the benchmark.

Santa delivered the strongest December in 30 years
While December is a historically strong month for the Australian small cap sector, 2023 saw its second-best December monthly return since inception and the best since 1993 when the market gained 11%.

Small caps pipped the big caps over Q4
The Australian small cap sector kept pace with the ASX100 during December but underperformed its bigger peer by 3% over the year. This followed 2022 when the ASX100 outperformed the small caps by 17%. Pleasingly, the small cap sector showed glimpses of a much-anticipated performance recovery in the final quarter of 2023.

The same could not be said for the ASX Small Resources, which fell behind the Industrials by a further 5% to finish the year 13% below. While a headwind for the fund, unitholders still benefitted over the year from stock selection. Lithium was a key index detractor across the 12-month period, with the spodumene price slumping ~80% and marginal production starting to withdraw from the market (ie Core Lithium). Overall, the fund's lithium exposure generated solid outperformance over 2023 due to a preference for asset quality which attracted M&A.

M&A bonanza pre-Christmas
The 18th day of the month quickly became known as M&A Monday, with the announcement of several deals contributing to a few of the month's best small cap share price performers. Link Group (LNK) and Adelaide Brighton (ABC) both caught bids after cleansing the market with positive news – LNK announced positive steps towards extending a large client contract, while ABC provided positive earnings guidance. Having seen its share price slump 2/3rds over the last two years, dentist business Pacific Smiles (PSQ) received a bid from a Sydney-based private equity firm. On the same day Ridley Corporation (RIC) acquired a business and top-100 company Stockland Group (SGP) spent $1bn buying an asset from Lendlease (LLC). All this activity followed the back-door listing announcement of Chemist Warehouse into Sigma Healthcare (SIG). The fund saw no material benefit from M&A in December, with just a small bump in the takeover price for lithium developer, Azure Minerals (AZS). Across the small cap market, the LNK & ABC transactions accounted for ~20% of the

year’s total M&A activity. While according to FactSet, completed ASX small cap M&A in 2023 was down 40% compared to the prior year.

A biotech success

On the flipside Australian Clinical Labs’ (ACL) attempt to merge with Healius (HLS) was unsurprisingly thwarted by the competition regulator, the ACCC. Staying within the healthcare sector, the best small cap share price performer across the month and year, was neurological drug biotech company, Neuren Pharmaceutical (NEU). The company’s first US commercial sales of its trofinetide drug occurred in April with exemplary execution from its US partner, while NEU ended the year with positive trial data for its second drug application. Thankfully, unitholders benefitted from the company’s stellar 12-month return which saw its share price grow threefold.

In contrast, the market saw disappointing trading updates from Costa Group (under takeover) and PEXA Group. At the nano cap end of the market both Kathmandu (a milder winter) and Motorcycle Holdings (farm vehicles) pointed to some pockets of weakness. We now look forward to further company updates, hopefully positive, in January as a lead into the February reporting season.

Consumer resiliency a highlight

As we enter 2024 and contemplate the path for interest rates (money markets are pricing the Fed Reserve to start cutting rates in March 2024 with a total of six rate cuts totalling 1.5% anticipated for the year ahead), the November US presidential election, the evolution of artificial intelligence, China’s economic path, the prospect for more global conflict and continued nationalisation amongst many other variables, it’s worth reflecting on 2023 for a moment. A surprise for many was the Australian consumer’s resiliency in the face of rising rates and inflationary cost pressures with no mortgage cliff yet to emerge. While the domestic household savings ratio (1%) is now tracking well below the 4-year pre-Covid average (6%), rising wages have also helped, but net overseas migration in the last two years has also been unprecedented. Australia has added close to 1m people, which is roughly the equivalent of four years migration compressed into two (clearly encouraged to counter a lack of migration during the Covid years of 2020 and 2021).

Investment Team

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