

# Fairview Equity Partners Quarterly Combined Investment Report

31 December 2014

## Emerging Companies Fund

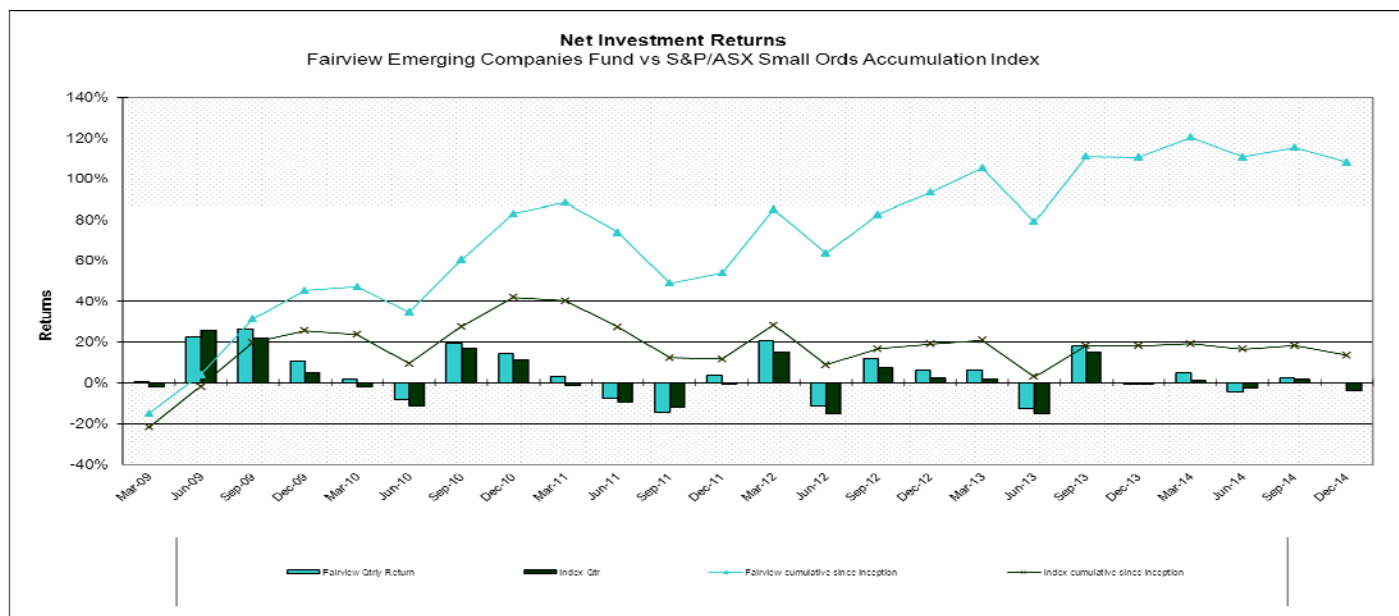
Fairview Equity Partners is a smaller company Australian equities manager. The Fairview Equity Partners Emerging Companies Fund seeks to provide capital growth and some income by outperforming the S&P/ASX Small Ordinaries Accumulation Index over the medium to long term.

## Performance Return

Period ending 31 December 2014	1 Month	3 Months	1 Year	3 Years p.a.	5 Years p.a.	Since inception#
Fairview Emerging Companies Fund*	0.31%	-3.04%	0.78%	14.67%	11.12%	16.37%
S&P/ASX Small Ordinaries Accumulation Index	0.47%	-3.89%	-3.81%	0.58%	-2.01%	2.04%
<b>Excess Return*</b>	<b>-0.16%</b>	<b>0.85%</b>	<b>4.59%</b>	<b>14.09%</b>	<b>13.13%</b>	<b>14.33%</b>
Net Fund Return ( after fees & expenses)	0.22%	-3.29%	-1.17%	10.62%	7.48%	12.48%

\* Returns shown are gross at a manager level (pre fees).  
# Returns over 1 year are annualised. Fund inception 8 October 2008.  
Past performance is not a reliable indicator of future performance.

December delivered a relatively flat performance outcome with the fund slightly underperforming the benchmark.



## Performance and Market Outlook

Despite a rally at the end of the quarter, the December quarter was modestly negative for investors. This was due to another vast sell off in the resources sector with oil stocks in particular due to a collapse in the oil price. Oil stocks have previously comprised over 5% of the small cap benchmark and thus they are a material driver of the small cap market.

Not surprisingly the performances of our oil holdings (Drill Search and Sundance Energy) were the two key impacts on the Fund's performance. Major positions in Flight Centre and G8 Education also detracted, and we were surprised by Flight Centre's modest downgrade to 2015 earnings guidance. On a positive note Beacon Lighting announced a large profit upgrade. Amcom and Vocus (both held) confirmed a likely merger arrangement.

We participated in the IPO's of APN Outdoor, Sprusons, Lovisa, Godfreys and Aconex, as well as a larger capital raising by Capitol Health. The performance of Sprusons, Lovisa and Capitol Health has been particularly strong since our purchase date, whilst the others are trading near their IPO prices.

Moving into January, which is typically a quiet month for corporate news flow, our early observations would be that the festive season appears to have gone reasonably well for most non-apparel retailers and that housing related construction appears to be holding up very strongly. Mining related activity continues to be diabolical with the outlook for many of the higher cost smaller iron ore producers and explorers appearing to be very poor at current commodity prices given the negative cash flows that will ensue. This is also impacting the mining contractors who now have to compete over a much smaller pool of available work at much lower margins. Accordingly we are maintaining our focus on higher quality industrials that have solid stock company specific growth drivers.

## Performance Attribution

We highlight below the largest positive and negative relative performance contributors during the quarter of December 2014.

Positive contributors		Negative contributors	
Liqueified Natural Gas Ltd	Not Held	Sundance Energy	Overweight
Sirtex Medical Limited	Overweight	Vocation	Overweight
Magellan Financial Group	Overweight	MACA	Overweight
Beacon Lighting Group	Overweight	Drillsearch	Overweight
Charter Hall Group	Overweight	G8 Education Limited	Overweight

## Contributors

Sirtex Medical has reported excellent quarterly sales and trial results of its main product, a specialised liver cancer treatment are very encouraging. Magellan Financial Group still continues to grow funds under management strongly. Beacon Lighting announced a major profit upgrade during December.

## Detractors

Very weak oil prices impacted both Sundance and Drillsearch. G8 Education suffered as a result of investors concern over potential regulatory changes. MACA was down in line with mining services stocks after heavy sell-offs during the quarter. Vocation announced profit warning due to problems relating to Victorian funding.

<b>Number of stock holdings at end of December 2014:</b>	<b>61</b>
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## Major Stock Additions

### Aconex Limited (ACX)

Aconex provides a cloud enabled platform for construction and engineering companies so that all key data is accessible on-line. We believe it has excellent growth prospects given its market penetration is still very low.

### Godfreys Group Limited (GFY)

Godfrey is a retailer of cleaning equipment with the Hoover brand being its main offering. The IPO pricing was very attractive and we believe the company is well placed to grow its range and store network.

## Capitol Health Limited (CAJ)

We had been attracted to this company for some time, given its ownership of lucrative radiology equipment licences. The valuation was stretched, however following a highly accretive acquisition at a discounted issuing price, we decided to participate, especially given there was a positive trading update as part of the process.

## Major Stock Disposals

### Vocation Limited (VET)

We exited immediately after the first profit warning associated with the Victorian funding problems. This was totally at odds with management representations made only a couple of weeks prior and we accordingly no longer regard this management team as investment grade.

### Mount Gibson Iron Limited (MGX)

The surprise catastrophic failure of the seawall at the major Koolan Island mine means that this company will no longer be a meaningful iron ore producer and our investment thesis was no longer valid.

### Ainsworth Game Technology (AGI)

Although the company has been growing strongly in North America, the key domestic market is now much more challenging than we originally anticipated and is proving to be too big a drag on the overall earnings of the company.

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