

Fairview Equity Partners Monthly Combined Investment Report

31 January 2017



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 2016	1 Month	3 Months	1 Year	3 Years p.a.	5 Years p.a.	Since inception [#]
Fairview Emerging Companies Fund*	-1.22	-6.87	1.09	7.79	10.79	14.65
S&P/ASX Small Ordinaries Accumulation Index	-2.44	-0.13	16.37	6.36	2.81	3.94
Excess Return*	1.22	-6.75	-15.28	1.43	7.98	10.71
Net Fund Return (after fees & expenses)	-1.31	-7.08	-0.09	5.46	7.51	11.15

* 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.

The small ordinaries index was down 2.4% in the month of January. Pleasingly and hopefully in a return to form, Fairview outperformed the index by 1.2%. After a dreadful year in 2016, our first relative loss year in the eight since inception, we would jolly well want to.

Market Commentary

At the start of the January the general market continued its sell off of high PE names, interestingly we saw investor focus switch to beaten up growth names in the final week of January. We would expect the reporting season in February to continue this trend. As this commentary is being written, any stocks, that report earnings higher than expected are being well rewarded, examples in our fund include Downer, BWX and IDP Education.

Resources outperformed small industrials in January with the higher leverage names providing the best returns as gold rallied on the back of the stream of consciousness that is the Trump twitter feed. Copper stocks enjoyed a stunningly good month due to a proposed strike at the Escondita mine in Chile, responsible for 4% of the world's copper supply.

Performance Attribution

We highlight below the largest positive and negative relative performance contributors during January 2017.

Positive Contributors		Negative Contributors	
Sandfire Resources	Overweight	Aconex Limited	Overweight
Regis Resources	Overweight	Oz Minerals Limited	Underweight
Webjet Limited	Overweight	Monash IVF Group Limited	Overweight
BMX Limited	Overweight	Bapcor Limited	Overweight
IVE Group Limited	Overweight	Whitehaven Coal Limited	Underweight

Contributors

Sandfire Resources was our best contributor in January. The company reported a highly credible December quarter production report with costs down and seemingly more cost outs to be delivered in the current March quarter. Being a pure copper play, Sandfire was keenly sort after by the market. In fact we were bid multiple times for our entire holding, we did not sell. **Regis Resources**, an Australian based, high quality gold miner was our second best performer in January.

Similar to Sandfire this company also punched out some strong quarterly production results. We still like this company a lot as the market gives this highly experienced management team no credit for their McPhillamys project in NSW.

Webjet was a strong contributor in January, primarily at the back end of the month. This stock was sold off aggressively by the market in the previous quarter in spite of positive statements from management re trading. We are still enthusiastic about the opportunity in front of Webjet in the B2B hotel room space. **BWX**, the manufacturer of the rapidly growing Sukin skincare brand also had a strong end to the month. Investors definitely oversold BWX in the sell 'any stock even remotely related to the Chinese consumer space' rout after the Bellamy's fiasco. China sales are very small indeed for BWX, the real opportunity is in the UK in the Boots pharmacy chain rollout. Since BWX reported 50% domestic sales yesterday the stock is up another 16%. Rounding out the top 5 contributors was a stock that probably no one has heard of. **IVE group** is a printer of marketing support materials. It is really cheap (PE of 6 when we bought it in August last year) and run by the family that started the business many years ago. We were lucky enough to tour the Franklin print facility that IVE has just purchased in Sunshine Melbourne. This was possibly one of the most impressive sites we have visited in the past 25 years.

Detractors

Oz minerals, another copper producer, had strong price appreciation in January. We own Sandfire at a very decent weight. This effectively stops us owning both major copper names. Sandfire was up 20% in the month, Oz was up 14% but Oz is a three times the market cap of Sandfire and so has a much higher index weight. **Monash IVF** group was penalised severely when its major listed competitor Virtus, came out during the January confession season (pre reporting season). This company stated that low cost competitor, Primary Healthcare among others had taken market share, from Virtus.

Monash has not reported yet and did not feel the need to confess so we are optimistic it was one of the 'others'. **Bapcor** effectively wrapped up its takeover of NZ Hellaby's in January. Analysts seemed to really like this but the stock retreated anyway. Bapcor is doing much better in February. **Whitehaven** outperformed as a coal player with leverage. This was in spite of lowering production guidance at its Narrabri longwall due to adverse geotechnical conditions. If Whitehaven had issued such an announcement 12 months ago the stock would have halved. **Aconex** was our worst performer for January due to a very poor trading update on the last day of the month. Delayed penetration offshore, low cash flow and the departure of a respected CFO absolutely hammered the stock. We are reassessing our investment thesis and will have further discussions with management.

Top Ten Holdings

We highlight below our top ten holdings within the portfolio, in alphabetical order:

Bapcor Limited	Magellan Financials Group Limited
Corporate Travel Management Limited	Mayne Pharma Group Limited
Costa Group Holdings Limited	Regis Resources Limited
Credit Corp Group Limited	Sandfire Resources NL
IDP Education Limited	Webjet Limited

Number of stock holdings as of 31 January 2017

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