

# Fairview Equity Partners

## Monthly Combined Investment Report

### 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                                       | 1 Month       | 3 Months      | 1 Year       | 3 Years p.a. | 5 Years p.a.  | Since inception# |
|-----------------------------------------------------|---------------|---------------|--------------|--------------|---------------|------------------|
| 29 February 2016                                    |               |               |              |              |               |                  |
| Fairview Emerging Companies Fund*                   | -3.18%        | -4.49%        | 5.45%        | 7.25%        | 8.13%         | 15.95%           |
| S&P/ASX Small Ordinaries Accumulation Index         | 0.95%         | -0.46%        | -3.56%       | -1.41%       | -3.17%        | 2.46%            |
| <b>Excess Return*</b>                               | <b>-4.13%</b> | <b>-4.03%</b> | <b>9.01%</b> | <b>8.66%</b> | <b>11.30%</b> | <b>13.49%</b>    |
| <b>Net Fund Return ( after fees &amp; expenses)</b> | <b>-3.24%</b> | <b>-4.81%</b> | <b>1.93%</b> | <b>4.26%</b> | <b>4.71%</b>  | <b>12.14%</b>    |

\* Returns shown are gross of fees 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 fund endured a challenging month both in relative and absolute terms. We held a handful of stocks that failed to meet market expectations with their interim results and they were severely punished by the market.

### Performance and Market Outlook

The Small Ords index increased +0.95% in February, outperforming the S&P/ASX100 by +2.9%. The Small Industrials index and the Small Resources index outperformed their respective S&P100/ASX sub-indices by 1.4% and 13.1%, respectively.

Sector performances over the month were predominantly positive. Materials was the best performing sector returning +14.7%, followed by Energy (+12.1%), Telecommunication Services (+5.2%) and Industrials (+3.2%). Consumer Staples was the worst performer, down -11.4%, followed by Information Technology (-3.0%) and Financials (-2.9%). The worst performers in the month were largely due to weak trading updates. Ozforex Group Ltd fell sharply (-37%) following downgraded FY16 guidance, and news it had terminated discussions with The Western Union. Programmed Maintenance Services Limited traded down (-33%) in light of a further slowdown in its offshore marine business. RCR Tomlinson Ltd (-30%) reported 1H16 net profit after tax of A\$8.9m which is down 53% on the prior calendar period, underlying a further slowdown in activity across all three of its business lines – Infrastructure, Energy and Resources.

### Reporting season performance:

141 companies in the ASX Small Industrials reported in February with 38 companies seeing upward consensus EPS revisions and a similar number, 37, seeing downward revisions. The average weighted EPS revision across the index was +0.7%. The Small Ords continues to trade at a premium to its 5-year average at 14.1x. The Small Industrials trades at a 7% premium, while the Small Resources is trading at an 11% premium.

The following stocks produced either results or guidance that was not received well by the market. Firstly SurfStitch Group Ltd indicated it will be investing more in new content initiatives that caused it to back away from previous guidance which is of some concern to us. Isentia Group Ltd's Australian business grew marginally below expectations but the overall thesis remains largely intact. Cover-More Group Ltd is struggling to recover adverse currency impacts on its gross margins and this is indicative of limited pricing power. IPH Ltd's result came in the lower end of guidance which is not enough for a higher PE stock, however there was nothing in the result that unduly concerned us. Finally Vitaco Holdings Ltd, whilst it was able to re-affirm prospectus target there were a couple of businesses travelling below expectations.

We are currently reviewing all the results from both owned and prospective companies and investors can expect the portfolio to undergo some modest changes in the coming months.

## Performance Attribution

We highlight below the largest positive and negative relative performance contributors during the month of February 2016.

| Positive contributors    |            | Negative contributors  |            |
|--------------------------|------------|------------------------|------------|
| Webjet Limited           | Overweight | Vitaco Holdings Ltd.   | Overweight |
| Costa Group Holdings Ltd | Overweight | iSentia Group Ltd.     | Overweight |
| Burson Group Ltd         | Overweight | IPH Ltd.               | Overweight |
| Independence Group NL    | Overweight | SurfStitch Group Ltd.  | Overweight |
| IDP Education Ltd.       | Overweight | Sirtex Medical Limited | Overweight |

## Contributors

The month of February saw several companies announce impressive results contributing positively to the performance of the fund. Webjet Limited had a solid month, announcing a strong interim result with all parts of the business doing well. Likewise, Costa Group Holdings Ltd and IDP Education Ltd announced their first results as listed companies; the impressive results confirm the strong attributes of their earnings base. Burson Group Ltd's also announced a solid interim result thus confirming the company's ability to manage currency headwinds with higher pricing. What's more, Independence Group NL rallied hard during the month of February in line with the rebound in commodity prices.

## Detractors

As outlined above, Vitaco Holdings Limited, SurfStitch Group Ltd, IPH Ltd and iSentia Group Ltd detracted from the Fund's performance in the month of February. Likewise, Sirtex Medical Limited announced a weaker interim result as a result of the company investing in the cost base.

Number of stock holdings as of 29 Feb 2016

60

## Contacts

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