Fairview Equity Partners Quarterly Investment Report

30 September 2016

FAIRVIEW EQUITY PARTNERS

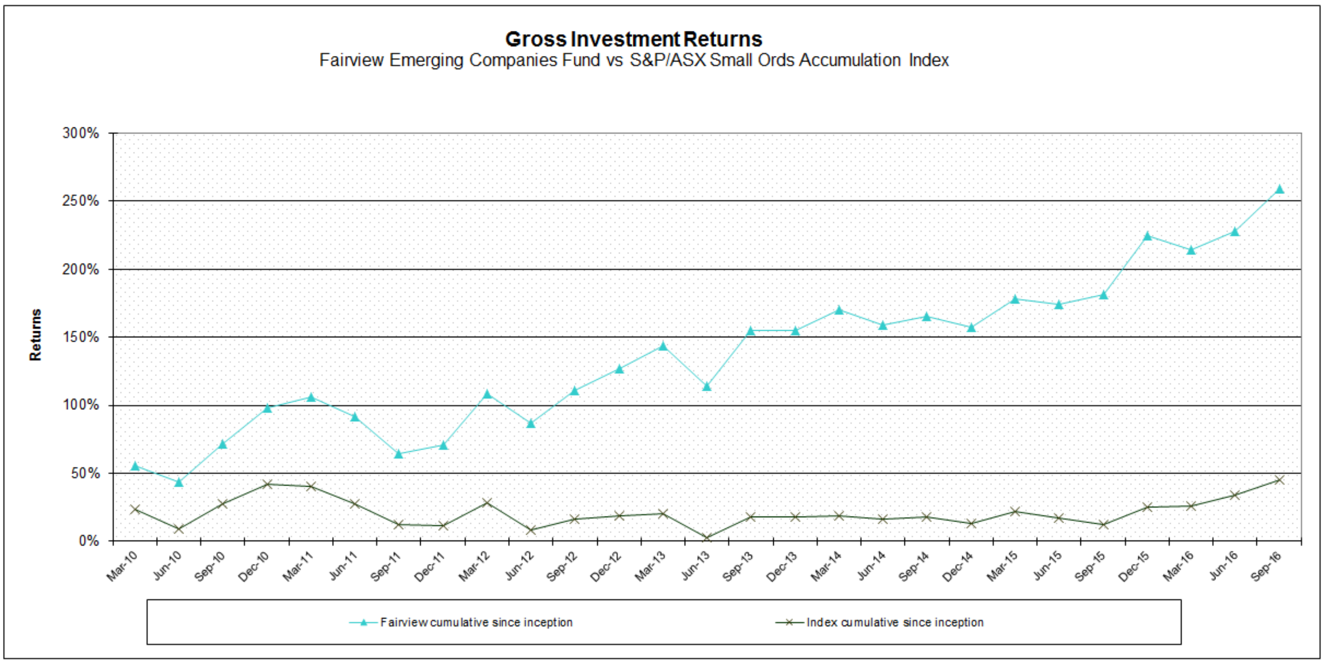
Emerging Companies Fund

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 30 September 2016	1 Month	3 Months	1 Year	3 Years p.a.	5 Years p.a.	Since inception#
Fairview Emerging Companies Fund*	1.39%	9.73%	27.85%	12.17%	16.98%	17.39%
S&P/ASX Small Ordinaries Accumulation Index	1.54%	8.51%	29.18%	7.08%	5.27%	4.76%
Excess Return*	**-0.15%**	**1.22%**	**-1.33%**	**5.09%**	**11.71%**	**12.63%**
Net Fund Return (after fees & expenses)	1.27%	9.32%	25.19%	9.70%	13.36%	13.69%

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



Whilst providing mixed results on a monthly basis, over the September 2016 quarter the S&P/ASX Small Ordinaries Accumulation Index rose by a solid +8.5%. The fund outperformed this result, which is pleasing for investors.

Performance and Market Outlook

Global equity markets tracked higher during the September quarter, including UK markets which recovered solidly post weakness immediately following the June BREXIT vote. Within the US, the market remains very focussed on the likely timing and magnitude of any rate hikes by the Federal Reserve, whilst the upcoming US election continues to occupy the minds of investors. Domestically, the RBA further lowered official cash to 1.50%, citing few immediate inflationary pressures and an easing of previously heightened concerns around house price appreciation.

Within the domestic equity markets the August full year reporting season for F.2016 was the key driver of newsflow and share prices. Overall, the bias in terms of outcomes relative to expectations was modestly negative, with aggregate F.16 EPS for Smaller Industrial stocks coming in approximately 4-5% below levels forecast in the months leading into the reporting season. In terms of forward estimates, despite this lower base effect F.17 earnings expectations have been downwardly revised by a lesser 2-3%, with consensus expectations for F.17 S&P/ASX Small Industrials EPS growth now standing at 9.4%. With positive earnings revisions a key leading indicator of forward share price performance we would certainly like to see a reversal of this aggregate trend of negative earnings revisions which has pervaded the market over these past couple of years.

During the September 2016 quarter, and despite this moderation in forward earnings growth expectations, the S&P/ASX Small Ordinaries Accumulation Index rose a solid +8.5%, again solidly outperforming the S&P/ASX 100 Accumulation Index which was +4.9%. Over the rolling 12 months to September 2016 this smaller companies outperformance is even more pronounced, with the S&P/ASX Small Ordinaries rising by a strong +29.2% (Small Industrials +22.1%, Small Resources +73.9%) versus +12.1% for the S&P/ASX 100.

At the heart of this small cap outperformance is acknowledgement of superior growth prospects within an environment of modest economic growth. Within this smaller segment of the market exist companies who are less mature, are operating within particular niches and/or growing share within their respective markets, and/or have available growth options which provide a growth profile somewhat independent to, and far exceeding, that available to those companies more reliant on broader levels of economic activity. Post the latest reporting season, expectations for F.17 EPS growth continues to reflect this divergence of available growth. Consensus expectations for Small Industrials F.17 EPS growth is +9.4% (Small Ordinaries, which includes more ‘noise’ from smaller resources companies +28.6%), relative to +4.6% for ASX 100 stocks. Despite this recent outperformance, and a significantly stronger forward earnings growth outlook, the F.17 PER for the Small Industrials at 16.8x continues to trade broadly in line with 16.2x for the ASX 100. In absolute terms this rating is modestly above long term averages however far from extreme levels.

Armed with new data post the recent reporting season, and following an already hectic post reporting season company visitation program, we are looking forward to travelling over this coming period across many parts of the country to continue our due diligence of a range of prospective investee companies.

Performance Attribution

We highlight below the largest positive and negative relative performance contributors during the September 2016 quarter.

Positive Contributors		Negative Contributors	
Webjet	Overweight	Vocus Communications	Overweight
Mayne Pharma	Overweight	G8 Education	Overweight
Nanosonics	Overweight	APN Outdoor	Overweight
Corporate Travel	Overweight	Japara Healthcare	Overweight
ASG Group	Overweight	AP Eagers	Overweight

Contributors

Webjet (WEB) was the standout contributor for the Fund during the September quarter, reporting a better than expected F.16 profit growth as the retail (B2C) and wholesale (B2B) divisions each experienced strong organic bookings growth and demonstrated further market share gains. WEB continues to benefit from the ongoing acceleration of bookings shifting online and scale benefits from recent acquisitions. Accompanying its full year result, the company also announced a significant partnership with global hotel supplier Thomas Cook which will benefit future earnings. **Mayne Pharma (MYX):** During the back end of the previous quarter MYX announced a transformational deal to acquire a large portfolio of drug assets from Teva and Allergan for US$652m. The deal is highly accretive and provides scale and capabilities to the already established US division. We remain very confident on the prospects for the business and feel the market is still underestimating the magnitude of the sales opportunity of the product portfolio. More recently, and despite only recently providing guidance, MYX reported a full year F.16 result which exceeded market expectations. **Nanosonics (NAN):** reported its maiden profit in FY16 but more importantly continued to demonstrate an acceleration of Trophon sales during the 4th quarter. This follows the establishment of NAN direct sales operations in 2015. There continues to be increasing momentum around the use of products such as Trophon supportive of high level disinfection of semi invasive and non invasive probes, including the recent release of supportive guidelines in several jurisdictions. Elsewhere, **Corporate Travel (CTD)** also delivered a strong result, ahead of 2016 consensus estimates, and answering some concerns in the market around both organic growth rates and cashflow conversion within the business. The company also provided guidance for FY17 of 23-30% EBITDA growth, which was above market expectations and represents a strong indication of management confidence in the outlook. Late in the period, **ASG Group (ASZ)** announced an agreed transaction with Japanese peer Nomura Research, whereby shareholders have been offered an all cash deal at 163 cents, representing a solid premium to prior closing levels.

Detractors

The key detractor to the Fund's relative performance during the September 2016 quarter was **Vocus Communications (VOC),** which saw its share price come under pressure late in the quarter. Peer telco TPG highlighted likely margin pressure as it shifts its customers from its own infrastructure onto the NBN network (with higher access charges compared to its own existing infrastructure). We highlight that VOC was primarily a reseller of broadband under the 'old world', with limited own infrastructure, and as such is coming from a position whereby NBN related margins should not come under the same pressure. VOC also announced the resignation of its CFO, raising some market concerns around the state of the MTU integration and associated extraction of synergy benefits. **G8 Education (GEM)** provided a weak first half calendar year result, with margin compression from higher staff wages compounded by underwhelming occupancy trends and modest acquisitive growth during the period resulting in only modest EBIT growth. Since this result we have exited our position in the name. **APN Outdoor Group (APO)** fell sharply after downgrading full year guidance due to prospects for weaker near term advertising market conditions. The extended Federal election and Olympics have been cited as the major culprit for weaker levels of forward bookings for the September-November period. We continue to hold a reduced position in the stock as we maintain our positive view on the broader growth within outdoor media relative to other traditional forms of advertising, and still see leverage from static to digital billboard conversion over the next several years. **Japara Healthcare (JHC)** reported an operating result modestly below expectations, however it was more so the uncertainty around government funding policy in the aged care market which has had the biggest negative impact on sentiment within this sector. Compounding uncertainty around the impact of proposed adjustments to acuity related government funding, a government paper was released which appeared to cast doubt over the ability of providers to partially recover this impact through capital maintenance charges to residents. **AP Eagers (APE)** has seen its share price retrace in recent months, as the market seeks to understand the potential impact associated with the current ASIC review of dealer finance income, and the potential for caps to be placed on finance commission levels. A recent ASIC report criticising high add on insurance premiums and inconsistent pricing, whilst a less significant earnings contributor, further highlights current regulator focus upon the sector.

Major Stock Additions

Ausdrill (ASL): We entered this stock in the lead up to the reporting season, as we consider that ASL is well placed to benefit from improved activity levels, currently under utilised equipment, and a strengthened balance sheet. This improved outlook has been evidenced by recent contract announcements and solid F.17 outlook comments.

Catapult (CAT): We initiated a position in CAT as part of the capital raising associated with the recent acquisition of XOS, which is a leading provider of digital video analytics software solutions, and PLAYERTEK, which develops wearable analytics software solutions for the prosumer market. We view that each of these businesses are highly complementary to CAT's existing wearable analytics businesses, bringing together both wearable and video based technology for elite sports and accelerates entry into the next level prosumer market.

Credit Corp (CCP): CCP is Australia's largest receivables management company. Whilst the majority of earnings are generated in the domestic Purchased Debt Ledger (PDL) market, strong future growth will likely arise from its growing presence in the U.S PDL market (10x Australia) and as its domestic sub prime consumer lending business continues to mature. We consider initial F.17 NPAT guidance of $52-54m as being conservatively set.

Kogan (KGN): We took an initial position on KGN as part of its recent IPO. We see a strong growth profile for this business as it leverages its significant on line customer base, strong capability in data analytics, with increased levels of private level inventory and entry into adjacencies such as mobile data and travel. The Dick Smith customer base acquisition is highly accretive and further accelerates this growth outlook.

West Africa Resources (WAF): WAF is focused on acquisition, exploration and development of gold resource projects in Burkina Faso, West Africa. The Company's flagship Boulsa Gold project posted some exciting exploration drill results and we took an initial position as part of an early August capital raising of $21m to accelerate this program. We expect further drill results over the next 6 months to further enhance the potential resource.

Major Stock Disposals

G8 Education (GEM): We were disappointed by an interim result which saw a deterioration in margin profile, associated with some occupancy related challenges and higher staffing costs. Whilst some elements may prove temporary, combined with a moderating outlook for acquisition activity, a somewhat constrained balance sheet, and recent management changes, our level of conviction was sufficiently lowered to warrant exiting our position.

HFA Holdings (HFA): Our thesis on this stock has essentially played out and we exited our residual position during the period

IPH Limited (IPH): Following a strong appreciation relative to our initial investment we exited our residual position post the most recent result. We viewed that the premium rating afforded the stock was somewhat inconsistent with the modest organic growth outlook, with growth increasingly reliant upon acquisitive activity.

Japara Healthcare (JHC): Whilst inherently attracted to the aged care industry, and we see the value inherent in a growing need for both brownfield and greenfield development, the level of uncertainty around government funding policy sufficiently tested our conviction and we have now exited the name ahead of greater certainty.

National Storage (NSR): We exited our position post the acquisition to acquire Southern Cross portfolio, and associated capital raising. This highlighted the increased difficulty in undertaking accretive transactions within the current environment, and refocussed our attention upon occupancy challenges and modest organic growth levels

Rhipe Limited (RHP): Whilst continuing to generate strong growth in its traditional licensing revenues and solid initial traction with respect to newer programs, we became increasingly impatient with the restraining effect of ongoing investment into the business upon cashflow and profitability.

Top Ten Holdings

We highlight below our top ten holdings within the portfolio, in alphabetical order (by period end weight):

Bapcor	Link Administration Holdings
Costa Group	Mayne Pharma
Charter Hall Group	Nanosonics
Corporate Travel Management	Regis Resources
IDP Education	Webjet

Number of stock holdings as of 30 Sep 2016	**54**

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