Fairview Equity Partners
Monthly Combined Investment Report

31 August 2016

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 August 2016	1 Month	3 Months	1 Year	3 Years p.a.	5 Years p.a.	Since inception p.a
Fairview Emerging Companies Fund*	-1.17%	6.06%	27.96%	13.21%	13.88%	17.39%
S&P/ASX Small Ordinaries Accumulation Index	-1.56%	5.47%	26.55%	7.13%	2.62%	4.61%
Excess Return*	**0.39%**	**0.59%**	**1.41%**	**6.08%**	**11.26%**	**12.78%**
Net Fund Return (after fees & expenses)	-1.25%	5.67%	24.90%	10.54%	10.38%	13.66%

** Returns shown are gross of fees 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.

The fund modestly outperformed the benchmark during a softer month in August, which was a pleasing result.

Performance and Market Outlook

Global equity markets were mixed during August with US equities flat and European markets finished slightly higher. On the domestic front the Reserve Bank of Australia cut its cash rate by 25 basis points to 1.5%, citing further downward revisions to the RBA's inflation forecasts released in its Statement of Monetary Policy. Employment data released during the month showed a further decline in the unemployment rate, however the gains were concentrated in part-time work, while full-time employment contracted in the month.

In August the all-important reporting season delivered some mixed results. Earnings were skewed more towards downgrades which saw consensus earnings per share growth moderate in FY17 to 11.0% for the Small Industrials. Of those small companies which saw market expectations for the coming year revised, approximately 40% of these companies had forward expectations raised, whilst approximately 60% saw estimates downgraded. The Small Industrials continue to trade at a premium to its 5-year average at 16.3x FY17 but we continue to discover solid stock specific investments with valuation support, positive EPS upgrades and strong growth optionality. The top smaller company performers in the month were skewed more toward industrial businesses. GWA (+40%) reported a result above market expectations, primarily driven by cost restructuring initiatives. Having been sold down heavily in the previous few months, Cardno (CDD) (+33%) increased sharply mid-month, ahead of the later release of its FY16 result and the resignation of its CEO. Cleanaway (CWY) rose +32% rose sharply following reporting an FY16 result above expectations, again driven more at the cost line that revenues.

The worst performers across the smaller ordinaries sector were more broad-based in terms of sectors. 1PG (-37%) continued its share price decline although with no reported news events in the month. APN Outdoor (APO) fell sharply (-35%) after it reported a half year FY16 result which disappointed expectations which had been buoyed by strong industry based data. The company also downgraded full EBITDA year expectations by ~6%, citing a significant reduction in advertising activity relating to the September-November period, which has arisen at least in part due to the extended Federal election and the Olympics. Wellard (WLD) also continued its weak performance, falling -34% through the month and culminating in the release of FY16 NPAT which missed prospectus forecasts by 70%. The stock closed the month almost 80% below its December 2015 issue price.

Performance Attribution

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

Positive contributors		Negative contributors	
Webjet	Overweight	APN Outdoor	Overweight
Corporate Travel	Overweight	G8 Education	Overweight
Nanosonics	Overweight	Aconex	Overweight
IDP Education	Overweight	Mayne Pharma	Overweight
Reece	Overweight	Vocus Communications	Overweight

Contributors

Webjet reported better than expected F.16 profit growth as the digital retail (B2C) and wholesale (B2B) divisions experienced strong organic bookings growth and demonstrated further market share gains. They continue to benefit from the ongoing acceleration of bookings shifting online and scale benefits from recent acquisitions. The company also announced a significant partnership with global hotel supplier Thomas Cook. **Corporate Travel** also delivered a strong result beating FY16 consensus numbers and provided guidance for FY17 of 23-30% EBITDA growth. We see their differentiated service offering and technology platform as the key earnings driver for continued international customer growth, whilst they also continue to benefit from leverage associated with an expanded international presence. **Nanosonics** reported is maiden profit in FY16 but importantly they have seen an acceleration of trophon sales continue in the 4th quarter. **IDP Education** delivered a solid result bettering prospectus forecasts by 7%. The company saw double digit growth across all core product categories and was underpinned by increased demand from emerging economies which the company is confident will continue.

Detractors

APN Outdoor fell sharply after downgrading full year guidance due to weaker 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 will continue to hold a position in the stock as we maintain our positive view on the broader growth within outdoor media relative to other traditional forms of advertising. **G8 Education** provided a weak 1st half calendar year result with underlying EBIT demonstrating only modest growth on the previous year. Margin compression from higher staff wages and challenges in terms of occupancy levels softened the result, whilst acquisition activity has been modest over the past 6 months. Since this result we have exited our position in the name. **Aconex** saw some profit taking despite delivering strong growth during the period. We maintain our positive view on Aconex as they seek to become the dominant global player in the construction collaboration software market. **Mayne Pharma** delivered a result ahead of numbers pre-announced in July. The stock has had a huge run so we see the recent underperformance as just some profit taking. From here it's all about acquisition and pipeline execution. **Vocus Communications** earnings result was in-line with guidance provided in June but with no update on FY17 synergy targets from acquisitions, disappointed the market.

Number of stock holdings as of 31 Aug 2016	57

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