Fairview Equity Partners
Monthly Combined Investment Report

31 October 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 31 October 2016	1 Month	3 Months	1 Year	3 Years p.a.	5 Years p.a.	Since inception#
Fairview Emerging Companies Fund*	-6.87	-6.68	12.99	8.60	13.38	16.17
S&P/ASX Small Ordinaries Accumulation Index	-4.72	-4.76	14.91	4.42	2.69	4.08
Excess Return*	**-2.15**	**-1.92**	**-1.91**	**4.18**	**10.69**	**12.09**
Net Fund Return (after fees & expenses)	-6.91	-6.91	10.70	6.25	9.87	12.53

** 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.

After a solid September quarter in which the S&P/ASX Small Ordinaries Accumulation Index rose by +8.5%, the month of October saw this smaller companies benchmark retrace -4.7% (S&P/ASX 100 -1.9%). Disappointingly the Fund underperformed during this latest month. Whilst having modestly underperformed the benchmark over the rolling 12 months, Fairview has delivered strong absolute and relative returns across most time periods, outperforming in 27 of 32 quarterly periods and provided double digit per annum returns to investors since inception.

Performance and Market Outlook

Global equity markets were mixed during the month of October, with modest gains across some markets matched by losses with others. The US market (S&P500 -1.9% during October) absorbed Q.1 results whilst it continues its pre occupation with the likely timing and magnitude of any rate hikes by the Federal Reserve. The protracted and divisive US election continues to create an environment of uncertainty. Within an already patchy economic growth environment and with market valuations at somewhat elevated levels, this is only feeding market volatility. Domestically, the RBA has left official interest rates at record lows of 1.5%.

The top Australian smaller company performers in the month were broad-based in terms of sectors. Karoon Gas (KAR) rose +73% following announcement that it was in discussions with Petrobras regarding two projects. UGL (+50%) received a final unconditional acquisition offer from CIMIC. Infigen (IFN) rose +25% following the announcement of MD/CEO succession plans. Genworth Mortgage (GMA) rallied +14% after China Oceanwide Holdings Group announced the acquisition of U.S. listed and substantial GMA shareholder Genworth Financial. The poorer performing smaller company stocks in the month were within the consumer sector. The Reject Shop (TRS) fell -29% after an AGM trading update noting it faces a challenge in respect to achieving last year's half year result. Ardent Leisure (AAD) declined -27% following the tragic incident at Dreamworld, whilst Bega Cheese (BGA) fell -26% after an AGM trading update noting a very challenging business environment for its dairy nutritionals platform.

Post a full year F.2016 reporting season which modestly missed market expectations on the whole, and saw forward estimates downgraded, the market has keenly sought some colour from AGM commentary as to how the current F.2017 year has commenced. Perhaps not unexpectedly the number of companies that have chosen to keep commentary both brief and non committal far outweighs those that have chosen at this early stage to provide guidance to the market. That said, some of the like for like sales (LFL) growth highlighted by some of our retailers for the first 6-8 weeks of the current year gives a somewhat encouraging indication of the current state of the consumer segment. Examples include JB Hifi (+8.3%), Greencross (+3.9%), Super Retail Group (+2.5-6.0% across its businesses), and Bapcor (+4.5%).

Having highlighted only a month ago that following a period of strong absolute performance the F.17 PER for the Small Industrials was approaching 17x, the pullback over the past month has provided some additional valuation support. Market pullbacks are often somewhat indiscriminate in nature, and volatility does present investors with opportunity. We have also seen in recent months increased corporate interest within the small cap segment. Bradken, SAI Global, Fantastic Furniture, and ASG Group are a few examples of small cap companies which have caught a bid more recently, reiterating perceived value to corporate acquirers. It would seem that this is particularly so for offshore buyers. We have also seen several smaller companies tap equity markets to fund accretive transactions. Ooh Media, Speedcast, APN News, Tox Free and Restaurant Brands all partially funded accretive acquisitions via equity markets in recent weeks.

Since the start of August our team has had in excess of 200 contacts with companies within our investable universe, continuing our intensive company visitation program which is at the heart of our bottom up investment process. It is through this program of company contact that we aim to uncover new investment opportunities, and stay abreast of developments within our current investee companies. Whilst unexpected developments and negative surprises certainly cannot be eliminated, our track record of outperformance highlights that ensuring we remain close to management, and that our investment cases remain both current and valid, enhances the likelihood of outperformance.

Performance Attribution

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

Positive Contributors		Negative Contributors	
Nearmap	Overweight	Mayne Pharma	Overweight
Corporate Travel	Overweight	Regis Resources	Overweight
Ardent Leisure	Nil holding	Bapcor	Overweight
Resolute Mining	Nil Holding	Whitehaven Coal	Nil Holding
Nanosonics	Overweight	Vita Group	Overweight

Contributors

Nearmap (NEA) was the strongest relative contributor to the Fund's performance within the month, following a strong Q.1 update in which it highlighted strong continued growth in its subscription revenue base (+39% on p.c.p.) across both its established Australian business as well as its evolving operations in the significant US market. Following an AGM at which time it reiterated guidance for FY17 of 23-30% EBITDA growth, despite somewhat patchy conditions across its various markets, **Corporate Travel (CTD)** continued to outperform. **Ardent Leisure (AAD)** (not held by the Fund) underperformed the market following the tragic events at its Dreamworld facility and the associated uncertainty. **Resolute Mining (RSG)** (not held by the Fund) declined 23.6% for the month as the market digested a $150m equity raising in late September and provided a Q.1 update where cost expectations were raised. **Nanosonics (NAN)** continued its strong recent performance, with the share price responding well to a Q.1 result whereby sales were +18% on the immediately preceding quarter. We have previously highlighted that there is increasing momentum around the use of products such as Trophon supportive of high level disinfection of semi invasive and non invasive probes, which augurs well for continued market expansion and penetration.

Detractors

After a strong September quarter contribution, **Mayne Pharma (MYX)** gave back some ground during the latest month on limited newsflow. We remain very confident on the prospects for the portfolio of drug assets recently acquired from Teva and Allergan and feel the market is still underestimating the magnitude of the sales opportunity of the product portfolio. Whilst **Regis Resources (RRL)** reiterated full year targets around both production and cash costs as part of its September quarter release, the market was seemingly unprepared that this would be a year where production will build progressively, and marked the company down on the basis that annualised Q.1 production was less than full year guidance. We remain confident in its capacity to deliver upon this guidance but also continue to present further opportunities through exploration at Tooheys, potential at Rosemont and progress with respect to McPhillamys. **Bapcor (BAP)** pulled back on concerns that its recent bid for NZ based comparable Hellaby will either prove unsuccessful or will require a bump in price in order to progress. **Whitehaven Coal (WHC)** (not held) continued its strong recent performance, with both thermal and semi soft coal prices rising significantly since the middle of the year, boosting cashflows from existing production as well as the inherent value associated with development projects. Late in the period **Vita Group (VTG)** declined on the back of reports highlighting current discussions being held with Telstra around their current commercial partnership. The market appears to be currently assuming that this will have negative connotations for VTG and all independent reseller partners.

Top Ten Holdings

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

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

Number of stock holdings as of 31 October	**57**

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