Fairview Equity Partners
Monthly Combined Investment Report

31 July 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 July 2016	1 Month	3 Months	1 Year	3 Years p.a.	5 Years p.a.	Since inception#
Fairview Emerging Companies Fund*	9.51%	12.10%	25.12%	15.63%	13.30%	17.77%
S&P/ASX Small Ordinaries Accumulation Index	8.57%	11.52%	22.29%	8.72%	2.38%	4.87%
Excess Return*	**0.94%**	**0.58%**	**2.83%**	**6.92%**	**10.92%**	**12.89%**
Net Fund Return (after fees & expenses)	9.32%	11.64%	21.58%	12.85%	9.83%	14.00%

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

The fund out-performed the benchmark during a very strong month, which was a pleasing result.

Performance and Market Outlook

July was a stronger month for equity market amidst expectations that global central banks would continue to provide economic stimulus to mitigate the fallout from the Brexit vote. The momentum continued in equity markets after U.S Nonfarm payrolls for June surged by 287,000 substantially bettering market expectations and providing positive signs of a US recovery. Domestically, fears that Australia's inconclusive election outcome would impact consumer sentiment was confirmed with a soft retail sales figure, which continued to weigh on the consumer sector. Coupled with a soft inflation print, and lessening concerns around an overheating housing market, whilst the RBA kept rates on hold during July it further reduced official rates during the first week of August.

The Small Ordinaries Accumulation Index rose 8.6% for the month, with Small Industrials +8.3% and Small Resources +9.6%. The ASX100 was +6.1% for the month, continuing the recent trend of smaller company outperformance. Across the Small Ordinaries universe the stronger stock performers were broad-based in terms of sector. Whitehaven Coal (WHC) was +56% on the back of announcing an improved annual output and benefitting from stronger coal prices, whilst Energy World Corporation (EWC) rose +51% after announcing the successful completion of a major upgrade of production capacity at its Klebb pilot project. Impedimed (IPD) was +41%, buoyed by news of upwardly revised payment rates for its L-Dex procedure, whilst Monadelphous (MND) also rallied +41% as it secured new contracts worth A$140m. The worst performers were Aseleo Care (AHY), -35% after downgrading FY16 earnings guidance to a 15% NPAT decline (from steady), citing increased competitor discounting, higher pulp costs and one off costs. 1-Page (1PG) continued its descent (-22%) with several large shareholders ceasing their substantial holdings.

We are now entering the full year reporting season for most companies, with results relative to expectations a key driver of near term share prices. In July the market saw consensus earnings revisions for FY17 across 80 stocks, comprising 30 upgrades and 50 downgrades. Perhaps highlighting already modest expectations, 97% of EPS upgrades resulted in an upwards movement in stock price, whilst only 20% of downgrades resulted in price falls. More recent broader market commentary has been more focussed upon valuations, with the recent broad-based rally further elevating the multiples awarded to those companies suggested to deliver reliable earnings i.e. utilities, infrastructure and healthcare. Falling bond yields and declining cash rates have driven yield seeking investors into certain segments of the equities market, rendering some of these yield stocks a crowded trade on elevated multiples. The Small Ords continues to trade at a modest premium to its 5-year average at 16.0x FY17 but at Fairview we continue to discover solid stock specific investments with valuation support, positive EPS upgrades and strong growth optionality.

Performance Attribution

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

Positive contributors		Negative contributors	
Mayne Pharma Group	Overweight	Evolution Mining	Not Held
Nanosonics	Overweight	Whitehaven Coal	Not Held
Syrah Resources	Not Held	G8 Education	Overweight
RCG Corporation	Overweight	iSentia Group	Underweight
Sirtex Medical	Overweight	Magellan	Overweight

Contributors

The largest contributor for the month was Mayne Pharma following the acquisition of the generic product portfolio from Teva/Allergan. The deal comprised an agreement to acquire 37 approved products and six pipeline products. This announcement accompanied upgraded FY16 guidance. Nanosonics rallied strongly after delivering an acceleration in 4Q sales for their Trophon product. Syria was down 23% (not held in the fund) after several broker downgrades around project risk and valuation. RCG announced the acquisition of Hype to extend its reach in the branded athleisure footwear market, whilst Sirtex provided guidance that worldwide sales for SIR-Sphere would be 16.4% in FY16. This suggested the sales trajectory had stabilised post the June trading update.

Detractors

The largest detractor to our Fund's relative performance for the month was Evolution (not owned by the Fund), which rose strongly on the back of a higher AUD gold price. We retain our preference for Regis in this space, attracted to its superior production upside, strong cash-flow and exploration upside. Whitehaven Coal is also not owned by the fund and has benefited from an improved production output and upswing in thermal and met coal prices. G8 Education, whilst still up 1.3% for the month, underperformed the market rally. We continue to be attracted to this stock, with solid organic growth accompanied by acquisitive upside, strong cash conversion supporting a high fully franked dividend yield, and a defensive sector with both sides of Government supportive of providing assistance with respect to child care. iSentia was soft, as the market had been increasingly concerned about the FY16 result. Late in the month the company announced they would hit the previously announced EBITDA guidance of $50-53m, which saw a partial price recovery. Magellan was up 2.7% for the month but underperformed the benchmark. We continue to be attracted to the capacity for continued strong FUM growth through both existing and newly developed global equities and infrastructure products, with strong leverage dropping through to shareholders as the business grows in scale

Number of stock holdings as of 31 Jul 2016	**55**

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