

# Fairview Equity Partners Quarterly Investment Report March 2014



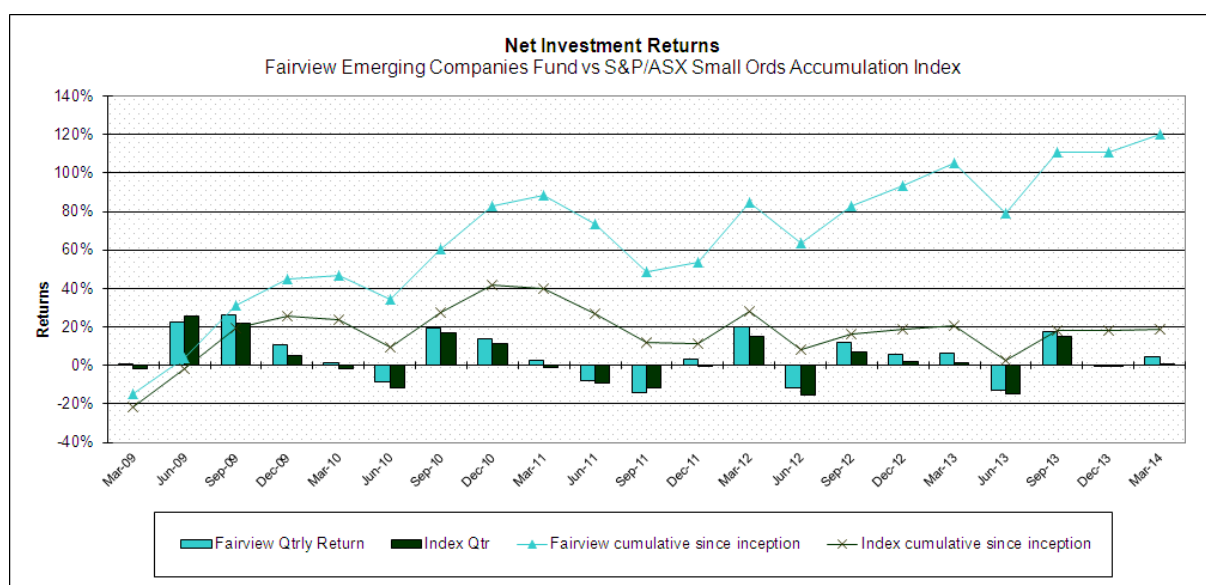
## Emerging Companies Fund

Fairview Equity Partners is a smaller company Australian equities manager. The Fairview Equity Partners Emerging Companies Fund aims to provide long term capital growth and some income by investing primarily in a diverse portfolio of smaller companies listed, or expected to be listed, on the Australian Securities Exchange. The Fund aims to earn a return (after fees and expenses) which exceeds the S&P/ASX Small Ordinaries Accumulation Index (Benchmark).

## Performance Return

| Period ending 31 March 2014                 | 3 Months     | 1 Year        | 3 Years <sup>#</sup> | 5 Years <sup>#</sup> | Since inception <sup>#</sup> |
|---|--------------|---------------|----------------------|----------------------|------------------------------|
| Fairview Emerging Companies Fund*           | 5.86%        | 10.89%        | 9.39%                | 25.41%               | 19.89%                       |
| S&P/ASX Small Ordinaries Accumulation Index | 0.89%        | -1.46%        | -5.33%               | 8.76%                | 3.22%                        |
| <b>Excess Return*</b>                       | <b>4.97%</b> | <b>12.35%</b> | <b>14.72%</b>        | <b>16.65%</b>        | <b>16.67%</b>                |
| Net Fund Return (after fees & expenses)     | 4.61%        | 7.39%         | 5.35%                | 20.98%               | 15.51%                       |

\* Returns shown are gross of fees (including management and performance fees) but before tax  
# Returns over 1 year are annualised. Fund inception 8 October 2008



Return and Index for Quarter ending Dec 2008 not shown as only a part period, but included in cumulative return series.

## Market Outlook

The reporting season was very positive and thus from an earnings perspective we believe the outlook is encouraging for most of the stocks in the smaller industrial sectors. Low interest rates are continuing to fuel increased consumer activity as well as more robust building activity. Conversely, the mining sector remains subdued and we are generally underweight across most commodities.

A challenge for investors presently is the elevated multiples for quality growth stocks. The term growth at ANY price has started to feature with many good news type stories being bid up with minimal regard for valuation. Historically, this trend tends to correct itself and often, quite aggressively so, we are particularly vigilant at present in finding those stocks with an adequate level of valuation support.

The other topical development is the renewal of IPOs coming to the market, particularly in the small cap space. Apparently broker corporate departments have never been busier and we will look to very selectively participate in some of these floats. Beacon Lighting which will list in mid-April is an outstanding example of the sort of IPO credentials we like to see, including a reasonable valuation, sound growth motives for listing and a solid and proven business model.

## Portfolio Strategy

We are continuing search far and wide for new opportunities and we have travelled extensively over the last couple of months. We are now in the process of considering several new investment opportunities for the fund.

## Performance Attribution

We highlight below the largest positive and negative relative performance contributors during the quarter of March 2014.

| Positive contributors    |            | Negative contributors     |            |
|--------------------------|------------|---------------------------|------------|
| G8 Education Ltd         | Overweight | Fairfax Media Limited     | Not Held   |
| REA Group Ltd            | Overweight | Ainsworth Game Technology | Overweight |
| Mayne Pharma Group       | Overweight | Red Fork Energy           | Not Held   |
| Aurora Oil & Gas Limited | Overweight | Super Retail Group        | Overweight |
| Sirtex Medical Limited   | Overweight | Flexigroup Limited        | Not Held   |

## Contributors

G8 Education, following on from a solid interim result, another large childcare centre acquisition was announced. REA Group has announced an excellent interim result and has impressive growth prospects with its depth products. Mayne Pharma Group also had a strong interim result and have solid new products in the pipeline. Aurora Oil & Gas received a takeover bid from Canada's Baytex Energy which is reflected in its contribution to the portfolio.

## Detractors

Fairfax was not held. Ainsworth Games have posted weaker than expected US results but this should be resolved in the second half of the year. Redfolk Energy released another disappointing production report, furthering market concerns around funding capacity and future growth prospects.

Flexigroup, the market retains some residual concerns around the sustainability of recent growth associated the sale and financing of solar panels.

## Major Stock Additions

### Energy Developments (ENE)

We participated in the sell down of stock from ENE's major shareholder. ENE is a niche energy provider to remote locations and it also has some clean energy projects.

### SG Fleet Group (SGF)

This company floated during the quarter and we obtained some stock via the IPO. The valuation was very attractive given the solid fundamentals of what is primarily a car leasing and fleet management business.

### Nine Entertainment (NEC)

We switched out of Seven Media into Nine as we believe Nine has more earnings upside from ratings improvement and is a more pure play free to air television company.

## Major Stock Disposals

### Red Fork Energy (RFE)

Unfortunately this company was unable to deliver on production targets and we exited our position.

### Regis Resources (RRL)

The production outlook at its key Garden Well mine has deteriorated too much for us to continue holding a position.

## Top Ten Holdings

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

|                           |                      |
|---------------------------|----------------------|
| Ainsworth Game Technology | IOOF Holdings        |
| Carsales.Com              | Mayne Pharma Group   |
| Charter Hall Group        | Mcmillan Shakespeare |
| Flight Centre             | Nine Entertainment   |
| G8 Education Ltd          | REA Group Ltd        |

Number of stock holdings at 31 March 2014:

61

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