Fairview Equity Partners
Quarterly Net Investment Report

31 December 2017

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 December 2017	1 Month	3 Months	1 Year	3 Years p.a.	5 Years p.a.	Since inception#
Fairview Emerging Companies Fund*	4.33%	12.49%	16.16%	10.85%	7.96%	11.95%
S&P/ASX Small Ordinaries Accumulation Index	3.20%	13.69%	20.02%	14.38%	7.39%	5.90%
Excess Return*	**1.13%**	**-1.20%**	**-3.86%**	**-3.53%**	**0.57%**	**6.05%**

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

Performance and Market Outlook

With the exception of China's Shanghai index, all key stock market indices recorded positive performance over the December quarter. The Nikkei and the Dow Jones Industrial Average were the highlights, both delivering double digit gains. Tightening monetary policy by the world's central banks remains a key theme with the Bank of England and Bank of Canada both joining the US Federal Reserve in lifting interest rates, and the European Central Bank and People Bank of China outlining more restrictive stances. Domestically, the $A showed some late year strength, while the S&P/ASX 200 ended up 7.6% over the quarter.

The Small Ordinaries Accumulation Index delivered 13.7%, approximately twice the return of the S&P/ASX 100 (+7.0%). Continued strength in the oil price, as well as nickel and copper, aided Small Resources' (+25.4%) outperformance of the Small Industrials (+10.6%).

M&A drove the two best performers in the Small Ords over the quarter - AWE Limited (AWE) and Aconex (ACX) each nearly doubled in price. In an intriguing courtship for AWE, a Chinese entity retracted their initial bid only to come forth again 3 days later before Mineral Resources (MIN) announced their acquisitive interest. Aconex (ACX) attracted the eye of Oracle at a significant takeover premium. Elsewhere, Pilbara Minerals (PLS), +75%, maintained strong newsflow announcing to bolster cashflow through shipping unprocessed lithium ore; Elders' (ELD), share price momentum (+70%) continued after its stellar November earnings update while Sino Gas Energy (SEH), +68%, benefitted from strong production in a backdrop of well-publicised China gas shortages. Weaker stocks during the quarter included Retail Food Group (RFG), -42%, following a damning media report about poor franchisee experience, and a subsequent profit warning, Thorn Group (TGA), fell 30% due to a challenged operating performance, Isentia (ISD), -22% suffered from a weak trading update, MACA (MLD), lost 21% due to a lack of contract announcements, while broker downgrades affected Class (CL1), -19%.

The Fund ended the year with a positive result, up 4.3% (net of fees) in December, beating the index by 1.1%. Pleasingly, over the quarter, the fund largely kept pace with the buoyant Small Ords Index, delivering a 12.5% net return. This concluded a solid calendar 2017, where the Fund delivered an absolute net gain of 16.2%.

January tends to have subdued corporate news flow although investors need to be alert for updates that precede the February reporting period. While the Christmas trading period is critical for many companies, this year the fund has less exposure to this phenomenon due to an underweight position in Retailers.

While synchronised global earnings growth was key to 2017, looking ahead into 2018, the extent of inflation and global central bank behaviour will be a feature. Reuters estimates the US tax cuts will aid US S&P500 earnings by 7-9% with debate targeting whether surplus cashflow will be used for share buybacks or capital investment. Regardless, we continue to identify highly attractive investment opportunities that are capable of growing earnings, somewhat independent of macroeconomic conditions.

Performance Attribution

We highlight below the largest positive and negative relative performance contributors during the December 2017 quarter.

Positive Contributors		Negative Contributors	
Kogan	Overweight	Webjet	Overweight
BWX	Overweight	Corporate Travel	Overweight
Ausdrill	Overweight	Nearmap	Overweight
IMF Bentham	Overweight	RCR Tomlinson	Overweight
Medical Developments	Overweight	G8 Education	Overweight

Contributors

Kogan (KGN) continued to please investors by providing a very positive trading performance at the AGM along with further announcements of its shift into new verticals such as health and pet insurance. Demonstrating its increasing presence as a lead generative website, it also disclosed additional information around its potentially lucrative NBN product offering.

BWX (BWX) finished the year strongly after management presented to potential US-based investors and the market digested the company's recently acquired US presence.

Ausdrill (ASL): Contract extensions, as well as a growing pipeline of opportunities supported the share price.

IMF Bentham (IMF): News flow for the company was strong during the period, including an Investor Day which highlighted the repositioning of the business increasingly towards a funds management type model, which if successful, should attract markedly higher valuation multiples than what currently exists.

Medical Developments (MVP) rewarded investors during the last quarter of 2017 when it received approvals for the use of its flagship 'green whistle' pain relief product, Penthrox, into 22 new countries.

Detractors

Webjet (WEB) disappointed the market with FY18 earnings guidance at its AGM requiring a 10% downgrade to consensus estimates, due to a range of ongoing and one-off costs. Underlying operating trends appear unchanged and management's recent tendency has been toward setting conservative profit expectations. WEB is one of few S&P/ASX200 companies the market currently anticipates can nearly double earnings over the next 3 years.

Corporate Travel (CTD): The weakness in the share price occurred during November when the CEO divested 5% of his holding in the company. FX rates used for the AGM guidance looked conservative until the recent jump in the US$, but with US operations, Corporate Travel will be a direct beneficiary of US tax cuts, whilst also potentially leveraged to any flow on effect to US corporate travel spending intentions.

Nearmap (NEA): Despite the company reaffirming its FY18 annual contracted value guidance, the share price was 10% lower over the quarter as the market tempered short term expectations around the sell through of its exciting new product technology.

RCR Tomlinson (RCR) continued recent order book strength and extended its funding capacity to accommodate additional work, but the market disliked the CEO stock selling in November, and broker suggestion that FY18 earnings will be second half weighted.

G8 Education (GEM): Investor sentiment was damaged after a poor trading update at the start of December with the share price falling 23% on the day - a less than ideal start to the month for the Fund, and the new CEO's tenure. The 10% earnings downgrade was due to a myriad of internal and external factors. We reduced our exposure due to the heightened risk.

Major Stock Additions

Appen (APX): Following the recent acquisition of the 2nd largest player, the company has consolidated a global leadership position in the provision of search relevance services and leverage to the high growth machine learning sector.

Getswift (GSW): We took a small position in the company attracted to the strong industry validation of its last mile logistics technology platform, attractive earnings growth potential, and likely strong company newsflow following its Amazon contract announcement.

MetalsX (MLX): With a year's ownership of the Nifty copper deposit, management's understanding of the deposit is now at stage that we expect growing production with reducing costs, as well as the potential for exploration upside. This, along with strong free cashflow generation, gives the company exciting optionality to crystallise the value of its considerable Cobalt/Nickel deposit.

Netwealth (NWL): Having known Netwealth as a private, family-run company, we participated in the IPO and subsequently increased our exposure. A technology leader, Netwealth is well placed as the structural shift by wealth managers towards independent investment platforms continues, which may possibly accelerate under a national banking enquiry.

Steadfast (SDF): We initiated a position in SDF, attracted to its strong positioning in the domestic insurance underwriting segment, along with its unique IT platform allowing for overseas expansion. Despite SDF finally enjoying a more positive premium environment, current market earnings estimates appear conservative in our view, with potential further upside from any acquisitive activity as it continues to consolidate its network of partners and affiliates.

Whitehaven Coal (WHC): We were attracted to the prospect for the company to deliver a strong first half result leading to full year profit upgrades. Analysts recently increased their earnings projections factoring in higher coal pricing and favourable currency translation.

Major Stock Disposals

Mayne Pharma (MYX): We exited our position when weak Specialty Pharma script data invalidated our investment thesis. The subsequent AGM update confirmed our thinking and resulted in the market reducing FY18 earnings expectations by 16%.

Reece (REH): Following sound share price performance since the full year result, and more recently the positive quarterly trading update, we exited our residual holding in REH. While we rate the franchise and management team incredibly highly, we believe the risk profile for the business is increasing given the likelihood of a cooling housing construction sector and the company's recent acquisition from private equity that extends its reach into a new segment, the Australian civil pipeline market.

Top Ten Holdings

We highlight below our top ten holdings within the portfolio, in alphabetical order, as at 31 December 2017

Ausdrill Ltd	IDP Education Ltd
BWX Ltd	McMillan Shakespeare Ltd
Corporate Travel Management Ltd	Mineral Resources Ltd
Costa Group Holding Ltd	Regis Resources Ltd
Credit Corp Group Ltd	Webjet Ltd

Number of stock holdings as of 31 December 2017	**58**

Contacts

Website
www.fairviewequity.com.au

Email
info@nabam.com.au

Client Services
1300 738 355