# Fairview Equity Partners
# Monthly Net Investment Report

**28 February 2018**

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 28 February 2018 | 1 Month | 3 Months | 1 Year | 3 Years p.a. | 5 Years p.a. | Since inception# |
|---|---|---|---|---|---|---|
| Fairview Emerging Companies Fund* | 2.64 | 8.04 | 20.93 | 8.65 | 7.36 | 12.14 |
| S&P/ASX Small Ordinaries Accumulation Index | 0.03 | 2.67 | 20.81 | 10.81 | 6.22 | 5.73 |
| **Excess Return*** | **2.61** | **5.37** | **0.12** | **-2.16** | **1.14** | **6.41** |

** 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

Fairview strongly outperformed the index in February 2018, a result at the top end of our peer group. It is also the third month in a row of outperformance and sees a welcome return to 12 month outperformance during a period of strong absolute returns for investors. We consider this pleasing performance is mainly due to disciplined stock picking. Two themes dominated the month; 1) global interest rate expectations and 2) the interim reporting season.

US stocks endured a tough February, with the S&P500 down 3.9%. The spectre of rising inflation driven by wage growth is forcing US market participants to dust off the history books and look closely at the 1970s. This drop in the S&P500 was in spite of one of the better US quarterly reporting seasons in recent times, 74% of S&P 500 companies reported positive EPS surprises, as well as the highest earnings growth since September 2011. Ominous warning signs of a protectionist trade war, in which both sides will lose, but the USA should lose less than China, have surfaced. This has started with proposed steel and aluminium tariffs. China's position is weak. This is due to its high export exposure and previous history ignoring IP protection giving it little leverage against the Americans in the looming dispute.

Whilst the Small Ordinaries Accumulation Index was flat, key Fairview portfolio stocks outperformed in the February interim reporting season. An important ratio to watch is the number of downgrades vs upgrades. Our own data, with a much larger sample size than any one broker (as most brokers cover at best 50% of the ASX Small Ordinaries stocks) suggest that 15% more small cap stocks suffered EBITDA downgrades than upgrades. On a sectoral basis, consumer discretionary stocks earnings estimates were clipped the most. The telco sector, a small weight in our index, surprisingly had the highest positive EBITDA revisions. A heartening trend that continued, for the second consecutive reporting season, was rising business investment. This bodes well for growth oriented small cap companies in our universe and we believe our portfolio is positioned to take advantage of this uptick. A note of caution has surfaced regarding cost inflation. Credit Suisse, in a recent industrial sector strategy document, detailed that whilst industrial company revenues were guided 1.4% higher, costs increased by 1.6%.

So looking forward into March, we expect to see further political posturing from the US and then probable retaliation from China. This will see ASX trade exposed stocks either edged up or absolutely smashed depending on their US vs offshore manufacturing exposure. The Australian economy is lumbering on agreeably, with an East coast infrastructure boom occurring alongside a resources industry revival in the west. On the flip side retail stocks seem to be severely challenged as shown by recent very weak same store sales data from listed retailers. Housing related stocks are also derating.

## Performance Attribution

**We highlight the largest positive and negative relative performance contributors during February 2018.**

| Positive Contributors | | Negative Contributors | |
|---|---|---|---|
| Kogan Altium | Overweight | BWX | Overweight |
| Corporate Travel Management | Overweight | GetSwift | Overweight |
| Altium | Overweight | Nine Entertainment Co | Nil holding |
| IDP Education | Overweight | Catapult group | Overweight |
| Nearmap | Overweight | IMF Bentham | Overweight |

## Contributors

**Kogan (KGN)** was our top contributor for the month. Mobile phone sim card sales growth was one of many highlights from this serial upgrader.

**Corporate Travel Management (CTD),** one of our largest holdings, confirmed it was tracking to the upper end of FY18 guidance of 22.0-27.5% EBITDA growth. Interestingly, the MD commented that corporates in the USA have started ramping up travel expenditure from the start of this calendar year.

**Altium (ALU)** reported 30% revenue growth on p.c.p., a number that stunned the market. Management outlook comments strongly suggest that margin leverage will continue. Altium is an under-owned growth stock.

**IDP Education (IEL)** reported one of the better results early in the reporting season. English language testing volumes were up 28% and student placements up 18%.

**Nearmap (NEA)** continued its share price run up that has seen it pile on 60% in just two months. The key point from the result is that the bulk of US based cost growth is behind them and US profitability is closer than the market had forecast.

## Detractors

**BWX (BWX)** frustrated shareholders with a below expectations result. Low organic growth in Sukin sales was determined to be the key culprit. We had down-weighted the stock prior to the result, but it still hurt us.

**Getswift (GSW)** starkly demonstrated a key risk that small cap fund managers grapple with. Our due diligence from talking to various users of the Getswift last mile logistics software suggested a very strong revenue growth profile. Alas corporate governance deficiencies around contract news flow were revealed, so we exited our small position.

**Nine Entertainment Co (NEC)** rallied strongly after demonstrating a lower than expected cost profile and strong summer ratings from the Ashes test series. The Free to air TV industry is still structurally challenged. However the voracious social media advertising rate increases (20 to 30% p.a.) over the past few years have given advertisers pause for thought and they seem to be reverting to media they know. We do not hold NEC.

**Catapult group (CAT)** bitterly disappointed investors with below expectations sales growth, high customer churn and a larger EBITDA loss than anticipated. The market has now started to factor in a dilutive raise to fund required investment.

**IMF Bentham (IMF)** litigation funding wins in the period were low vs expectations. We are heartened by the change in business model to a low cash capital intensity portfolio management focus and expect the stock to re-rate as this is fully appreciated by the market.

## Top Ten Holdings

We highlight below our top ten active holdings within the portfolio, in alphabetical order, as at 28 February 2018

| | |
|---|---|
| Ausdrill | Kogan.com |
| Corporate Travel Management | McMillan Shakespeare |
| Costa Group Holdings | Magellan Financial Group |
| Credit Corp Group | RCR Tomlinson |
| IDP Education | Webjet |

| | |
|---|---|
| **Number of stock holdings as of 28 February 2018** | **56** |

## Contacts

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