Fairview Equity Partners
Monthly Net Investment Report

31 July 2018

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 2018	1 Month	3 Months	1 Year	3 Years p.a.	5 Years p.a.	Since inception#
Fairview Emerging Companies Fund*	-1.97	3.57	24.20	9.92	9.44	12.00
S&P/ASX Small Ordinaries Accumulation Index	-1.01	3.74	22.58	14.03	9.27	5.92
Excess Return*	**-0.96**	**-0.17**	**1.62**	**-4.11**	**0.17**	**6.08**

** 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

The Small Ordinaries Accumulation Index took a breather during July, ending weaker (down 1.01%) than both global (ex Asia) and domestic peers. The ASX100's 1.6% gain was aided by strength in banks during a benign period of Royal Commission newsflow. Small Industrials (down 0.5%) outperformed the Small Resources (down 2.6%) for the third successive month. Continued global trade tension drove commodity prices lower. Renewed concern around lithium supply/demand imbalances also emerged.

Afterpay (AFT), +42%, was a standout performer during July, doing something not commonly seen in the Small Cap end of the market, by adding $1bn market value after it announced its commercialisation of the US market is tracking ahead of expectations. Other strong performers in the month included Mesoblast (MSB), +24%, forming a strategic alliance with one of China's largest pharmaceutical companies for its cardiac product. Myer (MYR), +23%, was aided by a positive sales release by David Jones. Cooper Energy (COE), +21%, progressed through another key milestones for its east coast gas project (Sole) while sector peer, FAR (FAR), +17%, continued its recent strong share price run with a bullish analyst report around the drilling program of the company's Gambia deposit.

On the negative side of the ledger, two Healthcare names, Asaleo Care (AHY) -50%, and Sigma Health Care (SIG), -40%, provided large earnings downgrades. AHY surprised the market with a 30% FY18 earnings downgrade due to a lack of control over input costs as well as selling prices, and SIG lost the key Chemist Warehouse account. Bellamy's (BAL), -29%, continued to drift lower on concerns around increased competition and regulatory risk, while Kidman Resources (KDR), -28%, was weaker due to heightened sensitivity to earlier stage lithium companies.

As well as being a month for a trickling of earnings result releases, July is also an opportunity for analysts to revisit their expectations. The Small Ordinaries Index saw analyst earnings revisions skewed heavily toward the negative with nearly twice the level of downgrades to upgrades. Our fund fared reasonably well on this metric but didn't come out unscathed (see below). Domestically, we remain wary of a few factors yet to fully materialise into certain companies' earnings, such as the forthcoming Federal and two state elections, softening Housing prices (somewhat exacerbated by the media) and decade-low saving rates, as well as the devastating drought conditions. The US reporting season has been particularly strong, giving a pleasing read-through for Australian-based companies with US exposure. At the time of writing, around 80% of the S&P500 constituents have reported their June quarter results with an 80% beat rate (a decade record). For those that missed earnings expectations, share price reactions were violent. Interestingly, one feature that appeared in management commentary earlier than expected, and that we'll be attuned to during the August reporting season, are the impact of tariffs (leading into cost pressures), as well as increased volatility in certain currencies.

The fund modestly underperformed its benchmark during a rather eventful month.

Performance Attribution

We highlight below the largest positive and negative relative performance contributors during the month of July 2018.

Positive Contributors		Negative Contributors	
Nearmap	Overweight	Kogan	Overweight
Australis Oil & Gas	Overweight	Afterpay Touch	Nil holding
Credit Corp	Overweight	Appen	Overweight
Bell Financial Group	Overweight	Reliance Worldwide	Nil holding
Cooper Energy	Overweight	Medical Developments	Overweight

Contributors

Nearmap (NEA) provided a very positive update highlighting markedly better than expected sales of its aerial imagery products in the fourth quarter in both Australia and the US. This prompted analysts to accelerate cashflow breakeven assumptions for the US operations, as well as upgrading group FY19 earnings expectations.

Australis Oil & Gas (ATS): Australis continued its recent share price strength providing investors with an update on the forthcoming drilling program at its onshore Tuscaloosa Marine shale play in Louisiana. News that a mega energy company was also commencing drilling in the area supported ATS's strategy.

Credit Corp (CCP) reversed a period of share price weakness on the last day of the month with its results release. Key investor concern of a FY19 earnings gap was in part alleviated by stronger performances from its businesses beyond the traditional Australian purchased debt ledger activity.

Bell Financial Group (BFG) impressed the market by demonstrating strong operational leverage in the business with 65% first half earnings growth while pointing to continued good growth due to a strong pipeline of Equity Capital Market activity. We believe BFG will continue to benefit from the separation from Wealth by the major Australian banks.

Cooper Energy (COE) placed itself in a trading halt such was the significance of reaching a major milestone in the commissioning of its major Sole offshore gas project in the Gippsland Basin. The flow rate of the first production well exceeded the company's expectations with management confirming the project is running within time and budget with the first gas to be piped into the tight Australian east coast gas market in the fourth quarter of 2019.

Detractors

Kogan (KGN): An impressive earnings upgrade cycle splintered during the month. A weaker than expected quarterly sales update forced FY19 earnings estimates lower. Investors reacted swiftly, with the share price falling 20%+ on a similar level of shares sold recently by the management team. A voluntary escrow for any additional management selldown would aid investor sentiment. We had reduced the portfolio exposure to KGN, but the impact was still felt.

Afterpay Touch (APT): The company's quicker than expected US market penetration superseded any investor concern of a possible ASIC review into its product. We do not hold APT.

Appen (APX): After a stellar share price run, it fell during July after an analyst recommendation downgrade in a backdrop of heightened scrutiny of growth (vs value) stocks as well as investor skittishness after earnings disappointments from US IT stocks such as Facebook and Twitter.

Reliance Worldwide (RWC): Investors continued to like the recently acquired exposure to the UK/Europe region through the John Guest business. We do not own RWC.

Medical Developments (MVP): Disappointment occurred when the company's pathway to the US market for its Penthrox pain relief product hit an unexpected hurdle. They were notified of a pending FDA letter documenting a series of issues and concerns. Clearly the company was hopeful of better news before it actioned the early August balance sheet recapitalisation when it raised $17m of fresh funds.

Top Ten Holdings

We highlight below our top ten active holdings within the portfolio, in alphabetical order, as at 31 July 2018

Australis Oil and Gas	Nearmap
Corporate Travel Management	Nine Entertainment
Credit Corp	OZ Minerals
IDP Education	Service Stream
McMillan Shakespeare	Webjet

Number of stock holdings as of 31 July 2018	**52**

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