Fairview Equity Partners
Monthly Net Investment Report

31 May 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 May 2018	1 Month	3 Months	1 Year	3 Years p.a.	5 Years p.a.	Since inception#
Fairview Emerging Companies Fund*	4.43	4.47	27.34	9.69	10.12	12.32
S&P/ASX Small Ordinaries Accumulation Index	3.70	4.11	25.40	11.56	9.69	6.02
Excess Return*	**0.73**	**0.36**	**1.94**	**-1.87**	**0.43**	**6.30**

** 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 month of May saw further solid gains for Australian equity investors. The S&P/ASX Small Ordinaries Accumulation Index increased by a solid +3.7% across the month. The Small Industrials rose +3.8% during May whilst the Small Resources Index increased by a modestly lower +3.3%.

The Fairview Emerging Companies Fund saw strong absolute gains during the month, and exceeded the benchmark return. The return to outperformance over the past 6-12 months or so, within a period of strong absolute returns for investors, is a pleasing result for all. The smaller companies segment of the market has proven to be a happy hunting ground for investors over this past 12 months, with the S&P/ASX Small Ordinaries +25.4% on a rolling 12 month basis (small industrials +19.6%, small resources +49.0%). This compares to far more modest returns of +8.3% and +9.6% for the S&P/ASX100 and S&P/ASX200 Accumulation Indices respectively, highlighting significant small cap outperformance.

So why have we seen such strong absolute performance from the small cap segment of the market, and such strong outperformance relative to the large cap universe? The answer is growth, both the delivery of growth but also the promise of future growth. The broader economy is solid but not exciting, market valuations are reasonable but not compelling. This makes the market far more suited to adding value through stock specific investment cases, rather than broader macro or thematically based investing. The small cap universe continues to offer the prospect of investing in less mature businesses, those with growth options less readily available to larger and more established enterprises, those capable of taking market share from incumbents, and of growing more materially from their current base. The smaller cap segment of the market therefore offers the capacity to deliver strong levels of earnings growth and therefore share price performance over the medium term. Fairview enables investors to access this via a dedicated and focussed, actively managed Fund run by an experienced team with a rigorous process surrounding ongoing company contact, strong bottom up stock selection, alongside appropriate risk control and portfolio construction.

Within the broader Small Ordinaries universe, performers and share price drivers continue to be stock specific in nature. Seven West Media (SWM) rose +47.8% during the month of May. The company reiterated EBIT guidance for the current year, and highlighted an improvement in the TV advertising market. Wisetech Global (WTC) seemingly regained favour with investors, rising +46.4% following positively revised revenue guidance and the selected placement of $100m in equity. Sino Gas Energy (SEH), caught a bid from private equity firm Lone Star and rose +38.2%, whilst announcements surrounding the US launch helped push the share price of Afterpay Touch (APT) +30.6%.

In terms of weaker share price performers across the month of May, the jackpot (pun intended) goes to gaming machine manufacturer Ainsworth Game Technology (AGI), down 39.3% after revising H.2 2018 pre tax profit expectations down from circa $42m to around $20m (excluding currency impacts). Investors continue to shun mobile phone SIM provider Amaysim (AYS, -32.6%) on concerns surrounding the entrance of TPG Telecom into the domestic mobile market, whilst Metcash (MTS) traded -19.4% after announcing softer than expected year to date supermarket sales revenue and that a sizeable customer will not renew its supply contract upon June 2019 expiry. Finally, following placing itself into suspension late in April, Beadell Resources (BDR) closed the month -18.1% after raising capital to alleviate liquidity constraints and bank covenant issues on the back of production shortfalls.

M&A activity is on the rise, with solid participation from the smaller cap segment. Examples of recent activity include the Mitsui acquisition of AWE, competing bids for Sirtex, the NoniB acquisition of Specialty Fashion assets and brands, the announced Mineral Resources deal with Atlas Iron, the proposed management buyout of BWX, and the Lone Star offer for Sino Gas. There have also been examples of smaller cap companies engaging in significant acquisitions themselves, including the Reece acquisition of US comparable Morsco, and the Reliance Worldwide acquisition of UK peer John Guest. Balance sheets are strong, capital markets are buoyant, interest rates are low, and earnings growth is being actively sought (and rewarded); all important ingredients for a constructive market for corporate activity. We expect this to continue.

Performance Attribution

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

Positive Contributors		Negative Contributors	
IDP Education	Overweight	Reliance Worldwide Corp	Nil holding
Metcash	Nil holding	RCR Tomlinson	Overweight
Australis Oil & Gas	Overweight	Ausdrill	Overweight
Kogan.com	Overweight	Medical Developments	Overweight
HUB24	Overweight	Wisetech Global	Nil holding

Contributors

IDP Education (IEL): News of its inclusion in the S&P/ASX200 Index certainly boosted interest in IEL during the month. The stock has been a strong performer for the Fund, and we remain attracted to the growth available as it further expands both its student placement services and high stakes international language testing services businesses across international markets, further leverages from available technology, and benefits from the structural tailwinds associated with those from developing countries looking to study and work in developed western countries.

Metcash (MTS): As mentioned above, the market was disappointed in the company's announcement that it is expected to report a 1.2% decline in total sales across its Supermarket & Convenience pillar (-3.6% in wholesale sales) for the full year ending April 2018. It also announced that a sizeable customer will not renew its supply contract upon June 2019 expiry. We do not own shares in Metcash.

Australis Oil & Gas (ATS): Australis performed solidly during May, with the market responding well to its March quarterly activities report. This highlighted the key tenets of the investment case and the company's progress in preparing for an upcoming drilling program aimed at proving up its Tuscaloosa Marine Shale play. An investor site visit also aided in furthering interest in the company.

Kogan.com (KGN): The directionally positive share price volatility continued in Kogan during May, as it recovered from a temporary pull back post the late April release of its Q.3 cash flow statement accompanying trading update. Post month end the company's founders were involved in a seemingly clumsy and ultimately unsuccessful partial selldown which has again seen the share price retrace some ground.

Hub24 (HUB): HUB was a solid contributor to the Fund during the month of May. Whilst there was no company specific newsflow of note, there are a number of positive dynamics currently. Rising markets continue to aid FUM balances and in turn fee revenue, net fund flow data continues to highlight strong growth relative to existing market share, whilst the bank royal commission continues to reinforce to the market the opportunity available to independent platform providers.

Detractors

Reliance Worldwide Corp (RWC): Late in the month Reliance announced the acquisition of John Guest for GBP688m, with an associated entitlement based equity raising. This appears to be a highly complementary acquisition of a global leader in plastic push to connect technology with a strong track record of growth and high levels of profitability. Given the strategic fit, and with the acquisition in excess of 20% accretive on a pro forma basis, the share price reacted accordingly. We do not hold shares in RWC.

RCR Tomlinson (RCR): RCR drifted lower during the month. Whilst there was no company specific newsflow, other than some broader based selling across mining services related names, there has been some heightened concern regarding recent announced changes to subsidy pricing structures for solar operators, with the solar space a growth driver for RCR.

Ausdrill (ASL): ASL trended lower during the month, despite its African underground joint venture announcing a new contract. Whilst seemingly consistent with a pullback across several mining services names following a strong run, announcements in early June pertaining to some reduction in expected F.19 revenue associated with a couple of contracts has seen the market look at potentially recalibrating its forward estimates. There remains strong prospects for further contract announcements from a buoyant tender pipeline, however newsflow has remained light in recent months.

Medical Developments (MVP): Medical Developments provided a disappointing trading update, in which it highlighted that despite approval for Penthrox (the ‘green whistle’) in 15 countries during the current financial year, financial upside would not flow through until F.19. Current year revenue is expected to be flat or slightly down on the prior period, and costs higher as the company continues to invest in required infrastructure ahead of product rollout across several regions.

Wisetech Global (WTC): WTC traded significantly higher during May on the back of a trading update in which it raised current year revenue growth expectations to 37-43% (was 35-41%). The company also announced several bolt on acquisitions and conducted a selective $100m placement to fund future growth initiatives. We do not own WTC.

Top Ten Holdings

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

Ausdrill	Kogan
Australis Oil and Gas	McMillan Shakespeare
Credit Corp	REA Group
Corporate Travel Management	Service Stream
IDP Education	Webjet

Number of stock holdings as of 31 May 2018	**54**

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