Fairview Equity Partners
Quarterly Net Investment Report

30 September 2017

FAIRVIEW
EQUITY PARTNERS

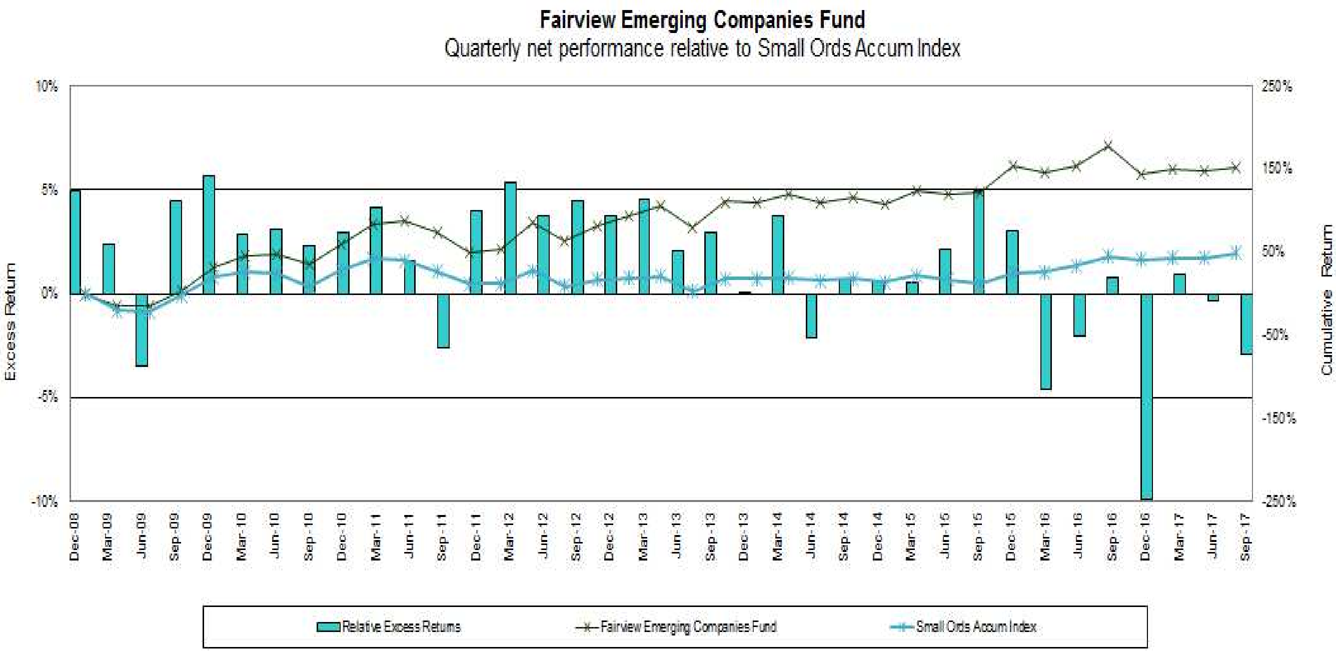
Emerging Companies Fund

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 30 September 2017	1 Month	3 Months	1 Year	3 Years p.a.	5 Years p.a.	Since inception#
Fairview Emerging Companies Fund*	0.93%	1.49%	-9.50%	5.40%	6.64%	10.84%
S&P/ASX Small Ordinaries Accumulation Index	1.31%	4.41%	2.98%	8.15%	5.09%	4.56%
Excess Return*	-0.37%	-2.92%	-12.47%	-2.75%	1.54%	6.28%

** 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

Global equity markets were predominantly stronger during the September quarter, with US markets closing at all time highs, buoyed by positive economic data such as strengthening US manufacturing, and optimism around potential corporate tax reductions. The S&P500 was +4.0%. European markets were also generally higher (FTSE100 +0.8%, DAX +4.1%), whilst Asian markets were a little more mixed (China Shanghai 4.9%, Hang Seng +6.9%, Nikkei 225 +1.6%). Domestically, the S&P/ASX 200 Accumulation Index closed the quarter +0.7%.

The S&P/ASX Small Ordinaries Accumulation Index improved a solid 4.4% during the September quarter, strongly outperforming the large cap segment of the market (S&P/ASX 100 +0.4%). Within our smaller companies' universe, the resource segment continued its recent strong outperformance with Small Resources +12.9% relative to Small Industrials +2.5%. Our underweight resources position has negatively impacted our relative performance during this latest quarter, and toward the latter part of the period we acted to reduce this exposure through some of the additional names referenced below, as well as adding to existing holdings.

The August results season essentially dominated news flow and share price performance over the September quarter. At a broader level, there was still a bias toward earnings missing expectations and forward expectations being revised downward. Good news was a little harder to find, with the vast majority of names that performed well in share price terms over this period rallying more so because the market was too bearish going into results.

Within the Small Ordinaries universe 19% of companies saw EBITDA come in more than 2% above consensus expectations, 35% saw reported numbers more than 2% below expectations, the remainder essentially in line. It was a similar story in terms of revisions to financial year 2018 EBITDA estimates, with 19% of companies seeing positive consensus revisions of more than 2%, 39% saw negative revisions of more than 2%, with the remaining 42% essentially unchanged (within +/-2%).

In attempting to provide a quick snapshot of how some of the individual companies within our universe fared over the results season we have tabled below the largest 100 companies within the S&P/ASX Small Ordinaries Index, according to both how EBITDA results came in versus consensus expectations (within +/-2% being deemed in line for this purpose), and subsequent revisions to F.18 EBITDA expectations (revisions within +/-2% being deemed no change for this purpose). Consistent with the comments above, you can see the bottom left box (missed numbers, forward estimates downgraded) has more representation than the top right (exceeded expectations, forecasts raised).

Headline Surprise (Reported F.17 EBITDA v Consensus), +/-2%

Revisions to Consensus F.18 EBITDA (+/-2%)	MISS	IN LINE	POSITIVE
UPGRADE	MMS, MND	NEC, RWC, SGM	A2M, BAL, BGA, BLA, CGC, ECX, GWA, ING, PTM, SIQ, WEB
NO CHANGE	BPT, CQR, FBU, RCR, SAR, SDR, WHC	AOG, APO, AVN, BKW, BRG, BWP, CKL, CLW, CTD, CWY, EHE, FPH, GEM, GUD, IEL, IFN, INM, IVC, LYC, MTR, MTS, MYO, NHF, NXT, OML, PRY, SDA, SFR, SOL, SUL, SXL, TNE, VVR, WOR	ALU, ARB, BAP, GMA, ORE, RRL, WSA
DOWNGRADE	ACX, AHG, BKL, CCP, GXY, IRE, MYX, NAN, NSR, NWS, PLS, RFG, RSG, SIG, SKC, SPK, SRX, SVW, SYR, TME	IGO, IPH, NVT, PGH, SCP, SBM, TGR	AAD, GOZ

Source: Factset

In terms of broad composition, whilst revenues generally showed sequential improvement, there were signs of emerging headwinds in terms of margins. Firms are facing rising wages, higher input costs (power in particular) and pockets of increased competition. With less headroom in terms of cost side initiatives, one area to watch in terms of forward estimates across many companies is the current assumption of improved margins.

Following recent reporting season related revisions, the market is currently now looking for +15.7% EPS growth from within the Small Ordinaries Index for the year to June 2018 (+6.2% for Small Industrials), with the Small Ordinaries now trading at 15.6x (Small Industrials 16.7x). By comparison, the ASX 100 is currently trading on 15.4x June 2018 estimates, with forecasts for a more modest +4.4% EPS growth.

With trading multiples modestly above longer term averages, we would like to see a stabilisation or indeed improvement in what currently remains a modestly negative earnings revision trend environment, and an absence of external shocks or even heightened geopolitical risk, for the market to provide further strong nearer term gains. We remain firmly of the view that the superior earnings growth environment within the smaller company universe will continue to see this segment of the market outperform the large cap universe. This is due to a greater prevalence of less mature companies, those growing off a smaller base, within particular niches, or with growth options available to them which are somewhat independent of the broader macro environment.

We appreciate that the performance of the Fund has not been at satisfactory levels over the past 12-18 months. We have certainly been humbled by this, and appreciate the patience and faith shown by our loyal investors. Longer term investors are better placed to appreciate that since inception the Fund has delivered solid absolute returns to investors. On a year to June basis, the 12 months to June 2017 was indeed the first period since our 2008 inception that the Fund has under-performed its benchmark, and only the second annual period in which it has delivered modestly negative annual returns. Whilst this past 12-18 months has certainly seen more difficult performance on the back of less favourable individual stock selection, exacerbated by some other market dynamics, the Fund has delivered outperformance in 78% of quarterly periods since inception. This remains a testament to a strong investment process, which remains firmly intact. With investment team resourcing further bolstered in recent times, we remain focused on returning the Fund to stronger performance. Investors can be further assured that as significant unitholders in the Fund the team remains firmly aligned.

Performance Attribution

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

Positive Contributors		Negative Contributors	
Kogan (KGN)	Overweight	Mayne Pharma	Overweight
Costa Group (CGC)	Overweight	A2 Milk	Nil holding
HUB 24 (HUB)	Overweight	Webjet	Overweight
Sims Metal Mgt (SGM)	Nil holding	Magellan Financial Group	Overweight
RCR Tomlinson (RCR)	Overweight	Catapult	Overweight

Contributors

Kogan (KGN) rallied very strongly throughout the quarter, after presenting a spectacular maiden result which exceeded expectations across all measures. The subscriber base continues to grow, the core business is showing strong improvement, and the newer verticals such as mobile are delivering very strong returns as Kogan and its partners leverage this growing customer base. The modest sell down by the founders following the result was easily digested and provides some additional market liquidity in a story which is gaining increased investor attention.

Costa Group (CGC) delivered another standout result and outperformed solidly during the period. After successive positive updates throughout the year, the 37% NPAT growth delivered was above expectations across all produce units, whilst initial guidance for the F.18 year of 10% would appear to be on the conservative side. In addition to likely strong growth from its moves into Avocados, there are several medium term growth initiatives underway across each of its mushrooms, berry, tomato and citrus pillars domestically, whilst it continues to expand its berry production across its Morocco and China operations. Recent adverse weather in the Northern Hemisphere will support stronger citrus pricing.

HUB24 (HUB) delivered a strong full year result and continues to enjoy strong net fund flows as advisers continue to seek alternatives to major bank and insurer owned platforms. During the year to June HUB reported net flows of $2b from an ever broadening distribution base, with FUA now $5.8b, with margin expansion occurring as the business increases in scale. With share of annual net flows of 10.5% versus a current 0.6% share of wrap, platform and master trust balances, we continue to view the runway for growth as significant.

Sims Metal Management (SGM). After a strong share price rally through the prior quarter SGM gave up most of these gains during the period. SGM reported EBIT of $182m, in line with guidance and significantly above p.c.p. levels of $58m, buoyed by strong scrap market conditions and cost initiatives, with further improvement initiatives to come. However, the shock departure of both the CEO and CFO in early August saw the stock de rate. We do not own shares in SGM.

RCR Tomlinson (RCR) has been a strong share price performer over the past quarter, benefiting from positive contract announcements and increased broader interest in the contractor services space. We are attracted to the positioning of RCR in the renewables (particularly solar) and rail infrastructure spaces, which have strong growth outlooks.

Detractors

Mayne Pharma (MYX): MYX was a material detractor during the September quarter. Price deflation negatively impacting the generic manufacturers, resulting from significant buy side consolidation, has continued to weigh on the stock. MYX downgraded F.17 earnings expectations ahead of its full year result, acknowledging this continued pricing pressure within its generics division, which accounts for approximately two thirds of gross profit for the company.

A2 Milk Company (A2M): A2M continued it's stunning share price performance during the September quarter, delivering a strong result which met revised guidance. Revenue was +56%, and EBITDA +159%. Infant formula represents more than 70% of Group revenue, with enhanced supply agreements in place to provide improved surety of supply. Late in the period, its manufacturer Synlait received registration allowing continued export of Chinese label A2 formula to continue beyond the Jan-18 regulatory changes. We do not hold shares in A2M.

Webjet (WEB) was a net under performer during a quarter packed with newsflow. There was initial negative noise surrounding a dispute with its auditor around accounting treatment associated with its Thomas Cook partnership. The company announced the materially accretive acquisition of JAC travel out of the UK, which further enhances its B2B positioning, whilst it then delivered a strong full year result, demonstrating continued strong growth in profitability, at rates well above industry trends. An accompanying year to date trading update was also positive.

Magellan Financial Group (MGF) under performed during the September quarter. It produced a result largely in line with market expectations. The company highlighted a likely moderation in the rapid employee cost growth seen in recent years, although also flagging a significant rise in marketing costs as it increasingly targets the self directed investor, as well as the bearing of both the offer and loyalty bonus costs associated with the upcoming launch of the listed Magellan Global Trust. We view that initiatives to tap into the self directed market, through a closed end trust of significant scale, will prove accretive.

Catapult Group (CAT) reported a full year result broadly in line with consensus expectations. Whilst organic growth of 27% was strong, the ongoing investment in product integration, geographic expansion, and innovation, elevated cost base, and drag on working capital disappointed the market. CAT has a number of initiatives for strong growth, including entering the prosumer market, with this opportunity potentially 10x the size of the elite market, as well as integrating video and data analytics. However this will take both additional investment and time, with investor patience required.

Major Stock Additions

G8 Education (GEM): We acquired an initial position in GEM during the quarter, ahead of its most recent result. We are attracted to the new management team, a solid pipeline of fully funded development, an improved balance sheet for further growth initiatives, and signs of an improving industry outlook. Market estimates remain well below 2-3 year financial targets outlined by the company, highlighting potential upside.

Iluka (ILU): We recently initiated a position in Iluka, the largest supplier of Zircon with in excess of a 30% share of global production. Zircon prices have begun to again move upwards, with ILU significantly leveraged to this improvement. Improved market conditions have seen the company announce the December 2017 restart of the zircon focused Jacinth Ambrosia project, with the market potentially under estimating the production leverage upon this restart. ILU is also quickly de gearing its balance sheet, providing additional leverage to shareholders.

Mineral Resources (MIN): We view that the market is under estimating potential growth over the next 2-3 years. In addition to strong growth out of its high margin crushing operations, and high leverage to a possible improvement in the iron ore price, MIN has several other projects underway which provide strong earnings and / or value upside. Its Mt Marion lithium operation has quickly hit nameplate capacity and is being further high graded at low capex, whilst its Wodgina lithium operation is currently generating strong margins out of selling DSO into the Chinese market. This is likely to be enhanced post construction of a Spodumene plant capable of delivering a 6% grade product. MIN also has numerous future growth plans, including the manufacture of 10mt modular, remotely operated crushing plants, development of a modular and portable rail (Bulk Ore Shuttle System), and possible expansion into the east coast coking coal market.

Melbourne IT (MLB): MLB has undergone significant change over the past few years, transforming itself from largely a domain name and web hosting business to a much more dynamic company involved in the end to end provision of digital solutions to both SMB and enterprise customers, and enjoying consequently faster rates of earnings growth. Whilst much of this growth has come via acquisition, and therefore with associated integration and cultural risks, we do not view that this shift in business mix and growth profile has been fully reflected in the rating of the stock.

RCR Tomlinson (RCR): We initiated a position in RCR, attracted to its strong positioning and improving growth profile within both the rail infrastructure and renewable energy (particularly solar) spaces. The order book for 2018 and beyond continues to fill out, whilst there remains potential for further margin improvement.

Major Stock Disposals

Beacon Lighting (BLX): We exited our residual holding in BLX as it became apparent that trading conditions have remained relatively soft, exacerbated by the pull through of demand associated with the closure of Masters at the back end of calendar 2016. At a broader level we remain cautious regarding the consumer discretionary retail environment in the nearer term. We did not view that this softer outlook is reflected in the current rating for the stock and exited our position.

Domino Pizza Enterprises (DMP): Post a weaker than expected full year result, and forward guidance which was also below expectations, we quickly exited our residual position in DMP. The remaining leg to our investment case in Domino was further acquisitions in other geographies. With this looking less likely in the nearer term, with risk to both the earnings and rating of the stock, and the CEO flagging intentions for a partial sell down of his holding, we decided to exit the position that had done so well for us for many years.

Monash IVF Group (MVF): We sold out on the back of concerns around the departure of its one its primary practitioners during the period. This departure, which accounts for a material proportion of its procedures and therefore, given the fixed cost leverage, earnings for the Group, also comes with further associated risk, as the future plans of this practitioner as a competitor to MVF become increasingly apparent.

Top Ten Holdings

We highlight below our top ten holdings within the portfolio, in alphabetical order, as at 30 September 2017

Ausdrill	Credit Corp Group Ltd
Bapcor Ltd	IDP Education Ltd
BWX Ltd	Regis Resources Ltd
Corporate Travel Management Ltd	Sandfire Resources NL
Costa Group Holding Ltd	Webjet Ltd

Number of stock holdings as of 30 September 2017	**54**

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