

Fairview Equity Partners Emerging Companies Fund

31 August 2018



Monthly Report

About Fairview Fund

The Fund invests in an actively managed portfolio of mainly small cap equities listed, or expected to be listed, on the Australian share market.

Investment Objective

The Fund aims to earn a return (after fees) which exceeds the Benchmark over rolling five-year periods.

Benchmark

S&P/ASX Small Ordinaries Accumulation Index ("Benchmark")

Inception Date

8 October 2008

mFund Code

FEP01

APIR Code

ANT0002AU

Minimum Initial Investment

\$20,000

Minimum Additional Investment

\$1,000

Management Fee

1.20% p.a. of the Fund's Net Asset Value.

Performance Fee

20.5% of the Fund's quarterly return (after deducting the management fee) in excess of the Benchmark's quarterly return after recouping any prior periods' underperformance in dollar terms multiplied by the Fund's average net asset value over the quarter.

Distribution Frequency

Annually calculated on 30 June. However, there may be periods in which no distributions are made or the Fund may make additional distributions.

Buy/Sell Spread

+0.30% / -0.30%

Number of Stocks as at 31 August 2018

49

Contacts

www.nabam.com.au
www.fairviewequity.com.au
Email: info@nabam.com.au
Client Services: 1300 738 355

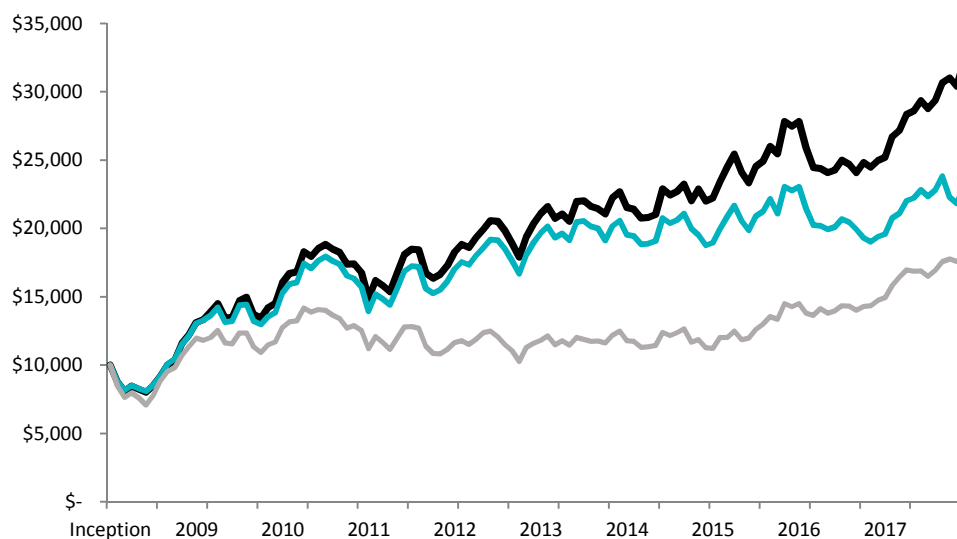
Net Performance

Period	1 month %	3 months %	1 year %	3 years % p.a.	5 years % p.a.	Since inception' % p.a. (Fund)
Fund Return²	5.96	5.09	29.09	13.55	9.63	12.55
Benchmark³	2.49	2.53	22.32	16.90	9.19	6.13
Excess Return	3.47	2.56	6.77	-3.35	0.44	6.42

¹Fund Inception date: 8 October 2008. ²Net returns are calculated after deducting management fees and are pre-tax.

³Benchmark: S&P/ASX Small Ordinaries Accumulation Index. Past performance is not a reliable indicator of future performance. The value of an investment may rise or fall with the changes in the market.

Growth of \$10,000 since inception



- Fairview Equity Partners Emerging Companies Fund - Distribution Reinvested
- Fairview Equity Partners Emerging Companies Fund - Distribution Not Reinvested
- S&P/ASX Small Ordinaries Accumulation Index

Performance and Market Outlook

Big month with big price moves

In an unusually volatile August earnings season with higher than average price moves amongst quality companies, the fund delivered a strong month of outperformance, exceeding the Small Ordinaries Index by 3.5%, and bringing the level of alpha to a pleasing 10% over the last 9 months.

Trump plays with Turkey

This level of performance was particularly satisfying given the strength of the Small Ordinaries Accumulation Index (+2.5% vs ASX100 +1.2%) as well as the headwind the portfolio faced by our Resource holdings. The relative strength of the ASX Small Industrials (+4.4%) compared to the ASX Small Resources (-4.1%) was at a level not seen for three years, and can be attributed to a culmination of Trump's post-election tariff battle, as well as ongoing weakness in the Lithium sector. It's worth highlighting the US S&P500 Index is up 7.5% over the quarter vs a 12% fall at the China Shanghai Index. Europe also saw instability due to the US Government doubling tariffs on Turkish Steel and aluminium - thankfully our portfolio had no direct exposure to this phenomenon. Most other regional equity markets were supported by recent strong earnings fundamentals, with Technology stocks a key feature both in the US (NASDAQ up 5%+) and the ASX Small Ordinaries.

Technology booms

Of the top seven best performers in the ASX Small Ordinaries Index, six were Technology companies delivering 25%+ share price growth (Appen, Wisetech, Altium, Infomedia, Bravura and Afterpay Touch). Consistent characteristics across these companies include: i) all are global businesses, ii) many are industry leaders; iii) with strong balance sheets; iv) improving margins; v) that delivered a high strike rate of strong earnings upgrades. In the case of Wisetech, it added \$1.7bn to its market value during the month. Amongst the worst performers in August, the only consistent pattern was disappointing earnings guidance. Unfortunately the fund didn't come through unscathed with relatively small positions in several names (see below commentary). Isentia (ISD), -54% was the weakest performer due to competitive forces hurting their profit outlook; RCR Tomlinson (RCR), -47%, once a star of the Australian Large Scale Solar thematic, pulled an emergency capital raising to counter a problematic contract; Speedcast (SDA), -32%, delivered a FY18 earnings downgrade due to an overzealous expected upturn in the Energy sector; ARQ Group (ARQ, formerly Melbourne IT), -27%, lost a key contract with large Australian telecommunications customer and Sims Metal (SGM), -26%, was a victim of Trump vs Turkey's steel market tensions.

Superior Small Cap earnings growth

Overall, the extent of share price reactions to certain company earnings releases was exacerbated this reporting season (we think due to the increased prevalence of passive investment flow and short selling/covering activity). Despite this, the level of FY18 earnings hits/misses in Small Caps was consistent with last year, as was the ratio of earnings upgrades to downgrades at a 1:2 ratio. The market is now looking for Small Ordinaries FY19 EPS growth of 18.4% (11.3% for Small Industrials), with the Small Ordinaries trading at 16.7x. By comparison, the ASX100 currently trades on 15.8x June 2019 estimates, with forecasts for a more modest 6.8% EPS growth. No doubt, both will be moderated over the year. An interesting observation, and it's just that, is the ASX Small Ordinaries Index remains 30% below its pre GFC high (November 2017) compared to the ASX100 which finished the month 6% from its peak.

September presents a few more earnings results along with the exciting prospect of reviewing, and visiting, our shortlist of potential portfolio inclusions. We continue to observe and monitor a list of global and domestic risks - notable for this month, the focus on high levels of US\$-linked indebtedness of some emerging market countries as well as renewed volatility in the Australian Federal Government landscape.

Investment Team



Michael Glenane

Executive Director/Portfolio Manager
BE, MBA
24 years' Investment Management experience



Leigh Cronin

Executive Director/Portfolio Manager
BBus, ACA, GDipAppFin, F Fin
19 years' Investment Management experience



Leo Barry

Senior Investment Manager
BSA, MBA
9 years' Investment Management experience



Tim Hall

Senior Investment Manager
BComm
17 years' Investment Management experience

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