Fairview Equity Partners Emerging Companies Fund

29 February 2020

FAIRVIEW EQUITY PARTNERS

Monthly Report

About the 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

Management Fee

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

Performance Fee

20.5% of the Funds 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

+0.25% / -0.25%

Number of Stocks

56

Contacts

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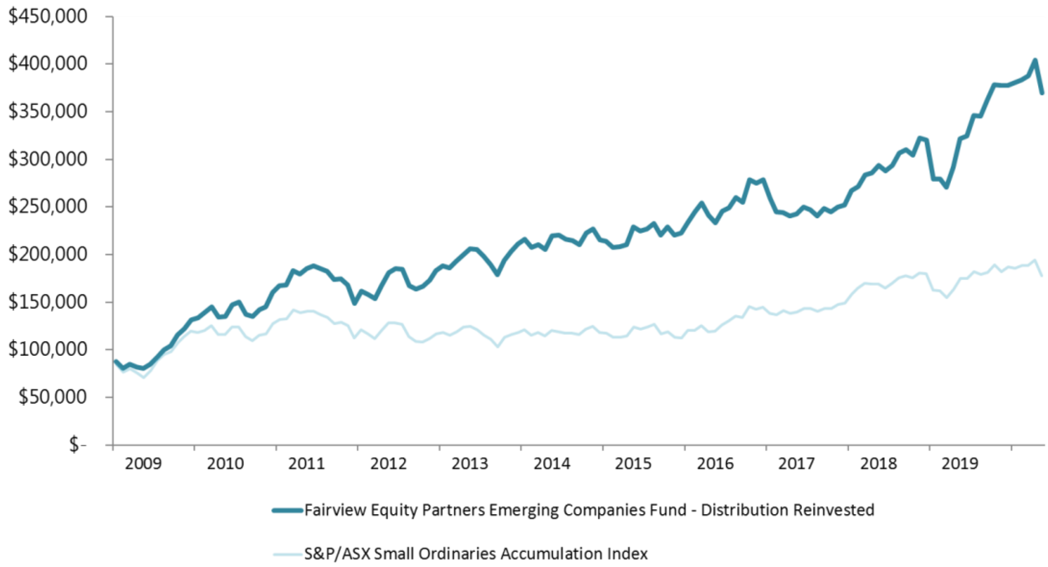
Net Performance

	1 month %	3 months %	1 year %	3 years % p.a.	5 years % p.a.	10 years % p.a.	Since inception[1] % p.a.
Fund Return[2]	-8.55	-3.52	15.05	15.06	10.07	10.60	12.16
Benchmark[3]	-8.68	-5.87	1.64	8.31	7.43	4.38	5.17
Excess Return	0.13	2.34	13.41	6.74	2.64	6.22	6.99

[1]Fund inception date: 8 October 2008. [2]Net returns are calculated after deducting management fees and are pre-tax. [3]Benchmark: 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 $100,000 since inception



2019 Finalist THE AUSTRALIAN FUND MANAGER AWARDS

Data Source: Fairview Equity Partners Pty Ltd

Monthly Commentary – February 2020

A look through the history books
It was another extraordinary month for investors. With six trading days left in February, the ASX Small Ordinaries Index was up 3.5%, but closed 9.0% lower than the January level. The 11.0% fall over the last five sessions was only the third time in the last 25 years the Index had fallen by greater than 10.0% in a week. The other two occasions were during the Global Financial Crisis (week ending 10 October {-12.0%} & 28 November in 2008 {-19.0%}). Whilst we have the history books open, the biggest ever weekly gain was 8.4% in March 2009. More on the macroeconomic outlook, a little later.

The Fund outperforms
The Fund outperformed the benchmark by 0.13% in February. Overall, the team was satisfied given the market turbulence and indiscriminate selling witnessed toward month's end. Pleasingly, the Fund has outperformed in all eight down months over the last 16 months, a record we hope to retain.

Gold stocks lose their lustre but the gold price didn't
Usually gold stocks act as a nice hedge during such volatile times, but despite the $AUD-based gold price being up 4.0%, golds stocks were the worst performers on some days. It was bizarre. Only half of them beat the Index in the month. Clearly, other forces were at play (some suggest passive fund selling). Even before the coronavirus sell-off, intra-day share price moves of companies that reported results felt unprecedented. Perhaps a combination of the 6.0% market gain in January, combined with the illogical (a common view) re-setting of accounting standard changes (reallocation of rent expense in the financial statements) which may have confused computer-trading, as it did for humans when comparing apples with oranges.

Many reasons in this earning season
Overall, we were pleased with the results for our portfolio holdings, but as mentioned above, some share price reactions weren't expected. A sober reminder for how heavily owned certain stocks can become. Portfolio companies that delivered standout results included Credit Corp (credit collection), Codan (metal detection), Data#3 (cloud computing) and IDP Education (a holding we had reduced at the start of the coronavirus outbreak). More broadly, the ratio of meaningful (+/-2.0%) earnings downgrades to upgrades was more elevated than recent years. Given the long list of reasons (incl. coronavirus, bushfires, drought, softer consumer sentiment, Brexit etc) it was clear the last six months have certainly kept management teams busy.

What's next?
Unsurprisingly, a key focal point for investors during management presentations was the dreaded coronavirus. Given the breaking news status at the time, many were investigating in real-time the 2nd and 3rd order effects, involving the depth of their supply chains and demand exposures. Unquestionably, the world will be different, at least in the short term, due to a change in human behaviour. De-stocking of certain consumer staples is being witnessed, inventory investment may quell short term cashflows, supply chain diversification will be explored, and not to be too alarmist, we may witness business closures and possibly, government assistance (particularly those related to global mobility, e.g. airlines/cruise industry). The Fund holds no travel stocks, yet. The world's attention has swung to governments' response to curb the virus spread and maintain economic activity. At the time of writing, monetary policy has come to the forefront with many central banks passing 'unexpected' rate cuts. We expect more central bank action over the coming month which should, amongst other aspects, aid underlying asset valuations. Fiscal stimulus will follow, and so might 'cashed-up' private equity bids and balance sheet recapitalisations, while ownership sell downs and initial public offerings (IPOs) will be shelved for now. Undoubtedly, few companies will be untouched but with heightened equity market volatility (it's only been higher three times in 30 years) and falling valuations, we continue to remain resolutely focussed on actively managing the portfolio and continue to refine various exposures.

To leave you on a positive note, the equity market risk premium (earnings yield less the 10-year bond yield) is appearing more attractive and the Australian east coast rains are providing some relief to our farmers. Stay healthy.

Investment Team

Michael Glenane

Portfolio Manager
BE, MBA
28+ years investment management experience

Tim Hall

Portfolio Manager
BComm
22+ years investment management experience

Leo Barry

Portfolio Manager
BSA, MBA
13+ years investment management experience