



**01:**  
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# Find the emerging opportunities

It would be easy for investors to focus on big growth technology companies, but to find opportunities in smaller companies a quality active manager is worth its weight in gold.

Most market-watchers agree that last year we all witnessed the end of something magical – the longest bull market in history. It lasted from March 2009 and crashed to an end in March 2020, as the impact of the COVID-19 pandemic began to be felt the world over.

During the spectacular decade of growth we enjoyed, passive investing naturally became extremely popular. Investors the world over poured their hard-earned cash into exchange-traded funds (ETFs), tracking a market that seemed to never fall.

Active managers might have fallen out of favour to some in the rush to enjoy these cheap returns. This seemed logical, especially as the largest companies in the world and the big, household name technology stocks have seemed at times to be on a trajectory of endless growth.

But any informed investor knows diversification is key. Those huge growth stocks cannot make up a whole portfolio.

In smaller companies, active managers have a unique opportunity to prove their worth.

This is where Fairview Equity Partners founding executive director and portfolio manager Michael Glenane<sup>01</sup> comes in.

Glenane and his team – fellow portfolio managers Leo Barry and Tim Hall – take a bottom-up approach to finding the opportunities in Australian emerging companies. Over time, it has proven fruitful for investors.

Through experience, the Fairview team understand that when it comes to small caps there are information gaps that a good active manager can exploit to the benefit of unitholders.

This is because there is a yawning gap between the analyst coverage of small caps and large caps. The biggest companies in the world also have the most analysts covering them.

“There’s less analyst coverage at the small end of the market. We think this is great,” Glenane explains.

“Because the stockbroking analysts have so many more stocks to cover as small caps analysts – only about half the number of analysts per stock in the small cap index – there’s an information gap and we aim to exploit it.”

Active managers might have earned a bad reputation to some during the bull run, certainly there were some charging fees without beating the benchmark. This is part of what drove the immense popularity of ETFs. But small caps are a different game.

“We think that small caps are one of the sectors of the Australian market where active management works. ETFs have become a feature of the Australian market over the last decade and by and large in the large cap market they work, and they are cheaper,” Glenane says.

“They don’t work as well in small caps because of that information gap. We’ve beaten our index by 6.5% since the inception of the fund, compound.\* The last three years, we’ve done considerably better than that.

And, he says the small caps sector generally has higher growth than those massive top 50 companies.

“This is because, they’re at an earlier stage of their lifecycle, their journey as a company,” Glenane says.

Fairview’s portfolio managers are stock pickers through and through. All three of the portfolio managers really understand each of the companies in the portfolio.

“We look across the spectrum of small caps. In fact, there is a lot of travelling involved. We can go anywhere from a gold mine to a salmon farm to an aged care home,” Glenane says.

“The diversity is stunning. We don’t limit ourselves to growth investing, or deep value investing. What we aim to do is find stocks where there is an underappreciated catalyst and valuation support.”

Of course, small caps do not operate in isolation from the other factors that are impacting markets.

“These are volatile times. We are bottom-up stock pickers, but we don’t do that in a macro vacuum,” Glenane says.

How the Fairview team itself functions and considering the problems facing it is integral to making its investment process work.

“How we do this can be summed up in two words – company contact. We meet over 600 management teams per year. That’s a lot. We do this to gain insight. A vast majority of these meetings will not change our portfolio. The ones that do are exciting,” Glenane explains.

The process after those meetings with company management involves the portfolio managers generating an investment thesis for why the company might be worthy of being in the portfolio, modelling returns and carefully considering portfolio weighting.

“This is all done equally between the three team members,” Glenane says.

That egalitarianism just might be Fairview’s secret ingredient. The way its three portfolio managers work together is a little different compared to how other investment managers might work.

“Each of us is a significant unitholder in the fund as well as being an equal shareholder in the business,” Glenane explains.

Fairview has also been partnered with MLC since inception.

“They’ve been a wonderful partner and a 40% shareholder. They take care of all that boring back office business that we really don’t enjoy and therefore we can focus on our stock picking – the reason for our existence,” he says.

“It’s been a good journey, we’ve delivered good returns.

“For every dollar you put into Fairview at inception, by now you would have about four dollars.”

Fairview has just one fund – the Fairview Equity Partners Emerging Companies Fund. Glenane says the fact that the team has a singular focus is another one of their strengths.

“It also eliminates conflict between different classes of unitholders. For instance, if you had a microcaps fund and a small caps fund sometimes there could be conflicts between those funds as far as allocations go,” he says.

“We also are very different by the fact we have three portfolio managers, and each of us have an equal say. That’s really important because it means each of us should have an equal understanding of all the stocks in our universe.” **FS**

\* Excess return as at 31 January 2021. Fund inception date: 8 October 2008. Net returns are calculated after deducting management fees and are pre-tax. Benchmark: S&P/ASX Small Ordinaries Total Return Index.

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## The quote

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