Fairview Equity Partners
Quarterly Investment Report
September 2012

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 Sep 2012	1 Month	3 Months	1 Year	3 Years#	Since inception#
Fairview Emerging Companies Fund*	5.87%	13.21%	28.75%	16.08%	20.68%
S&P/ASX Small Ordinaries Accumulation Index	4.37%	7.25%	3.83%	-0.91%	3.89%
Excess Return*	**1.50%**	**5.96%**	**24.92%**	**16.99%**	**16.79%**
Net Fund Return (after fees & expenses)	5.60%	11.71%	22.84%	11.66%	16.36%

** Returns shown are gross at a manager level (pre fees) for the Fund*
 # Annualised. Fund incepted 8 October 2008

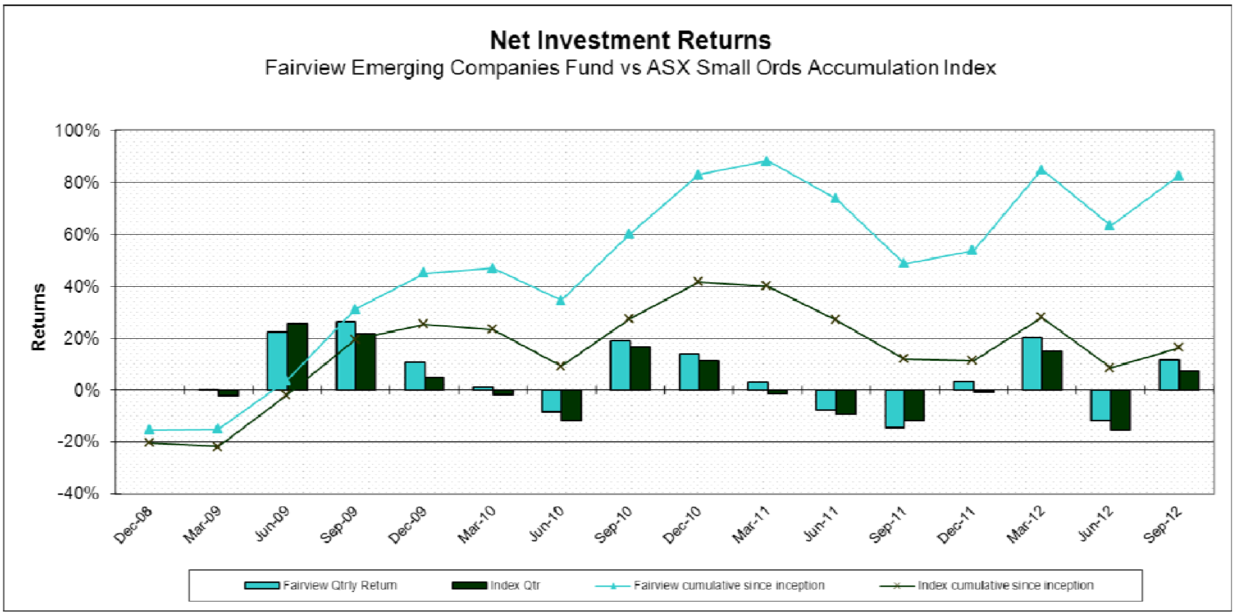
The September quarter was a very strong quarter in both relative and absolute terms as is displayed in the above table. This more than offset the negative return of the preceding June quarter and ultimately provided investors with a strongly positive return for the September year end. This was a very commendable result given the weak market.

When looking at the returns that the Fund has been able to provide over almost a 4 year period, it is clear that alpha or the return above benchmark is the dominant component of the total return. Since inception, the cumulative gross alpha provided by the Fund is now over 90% and this clearly demonstrates that a top performing manager can make a substantial difference. This is particularly the case in periods when the benchmark returns have been fairly flat. Picking the right small caps can provide exceptional returns when compared to other strategies like long/short and large cap funds.

Further to this, the Fund continues to provide short and long term returns that are right at the top of the peer group small cap fund managers that there is a substantial disparity in those peer group returns.

The September quarter is also likely to be a period where the majority of managers have under-performed the benchmark due to what appears to be a reasonably defensive bias to many portfolios. We continue to argue that trying to add too much value from thematic considerations is fraught with danger and typically outside the core skill set of most small cap managers. The most recent quarter demonstrated that once again when the general mood is bearish, markets can often surprise on the upside.

Although we are prepared to modestly reposition the Fund as circumstances change, the majority of the returns continue to be generated by stock selection which is far more repeatable in our view.



Return and Index for Quarter ending Dec 2008 not shown as only a part period, but included in cumulative return series.

Market Outlook

As alluded to above, we are typically reluctant to speculate on market movements and we would further suggest that now is a particularly difficult time to be attempting this. Although activity levels and commodity prices remain weak, these factors are quite obvious to policy makers who are responding with a variety of measures. These policy measures (both fiscal and monetary) were quite pronounced in the month of September and the market rallied in response to this.

Fundamentally, there is an absence of any compelling sectoral themes at present with all the major cyclical sectors now facing considerable headwinds. Iron ore and coal prices have now fallen to levels where many domestic projects are no longer viable and we are now starting to see cancellations and deferrals. In turn, this has started to negatively impact the order books for many of the related services firms.

On a more positive note, gold and copper prices have held up much better and oil prices have been relatively stable. We contend that stocks positioned favourably to these commodities are still worth holding in the portfolio.

Overall, the recent reporting season was fairly positive for industrial companies and we are extremely pleased with the progress from companies we own in the Fund. As has been indicated previously, we are heavily focussed on finding solid stock specific stories given the continuingly weak domestic economic conditions.

Portfolio Strategy

We have been fairly cautious on the resources outlook for some time now and this is reflected in the portfolio's construction. Excluding the more defensive energy and gold sectors, our bulks and base metals weight is less than 10% of the Fund's total value. Finally, most of our resource companies are low cost producers and the majority of our mining services exposures are production orientated companies.

We will continue to hold these exposures at a fairly neutral to benchmark weighting to ensure that the portfolio retains appropriate leverage to the resources sector.

We are still concentrating on adding industrials with strong stock specific attractions that are not reliant on buoyant economic conditions to grow their earnings. Pleasingly, we are finding the current environment highly prospective for new stock ideas and we are actively considering and adding many of these as new investments. This was evidenced by a large number of major transactions undertaken in the Fund during the quarter.

Finally, it is worth noting that the more defensive sectors are trading on historically large multiples as investors shy away from riskier sectors. We remain averse to holding defensive stocks that lack a compelling investment insight. We continue to maintain modest exposures to the more cyclical sectors that are likely to perform strongly should markets improve.

Performance Attribution

We highlight below the largest positive and negative relative performance contributors and their average positions during the quarter of September 2012.

Positive contributors		Negative contributors	
Regis Resources Ltd.	Overweight	Acrux Ltd.	Overweight
Beadell Resources Ltd.	Overweight	Alas Iron Ltd.	Overweight
Drillsearch Energy Ltd.	Overweight	Mastermyne Group	Overweight
Aust Infrastructure Fund	Overweight	Ausdrill Ltd.	Overweight
Carsales.com Ltd.	Overweight	Resolute Mining Ltd.	Not Held

Major Stock Additions

Ramsay Health Care (RHC)
Ramsay is the largest Australian private hospital provider with a strong growth platform into the UK NHS market. Ramsay is a defensive exposure in the health care sector. We don't expect a rerating, but there is minor upside risk to UK forecasts.

Endeavour Mining Corp (EVR)
Trading at only 17% premium to FEP gold universe of 40 stocks in spite of being a low cash cost producer. We think it should trade closer to its closest competitor (PRU) at a 60% premium. Two producing mines running close to 190koz ($650-700/oz cost) with a third 100oz growth option mine already having soil turned in Cote D'Ivoire. Management are conservative with a strong focus on costs.

FlexiGroup (FXL)
The company produced a strong result and excellent progress on recent acquisitions. Earnings growth over the next few years should remain robust and this should continue to drive the share price higher.

iiNet (IIN)
Our thesis around this company revolves around a proven management track record of integrating acquisitions. We believe that scale and synergy extraction will provide solid earnings growth over the next couple of years

Automotive Holdings Group (AHE)
We initiated a position as the company has been very active on several growth initiatives over the last year that will underpin strong earnings growth over the medium term and the valuation multiple is very attractive.

Major Stock Disposals

Adelaide Brighton (ABC)
We are concerned that demand for cement coming from the mining sector will weaken over the forecast period and that the company's earnings will deteriorate as a result. This will make the company reliant on a weak domestic construction sector for the majority of it profits.

Mineral Resources (MIN)
The collapse in the iron price will make the majority of MIN's iron ore producing projects economically unviable. These projects are now a substantial component of the company's earnings and we do not think the market is adequately reflecting this.

Forge Group Limited (FGE)
We sold out of Forge as we are concerned about the pipeline for new projects given a decline in commodity prices.

SAI Global (SAI)
We exited SAI as the company is failing to gain sufficient traction with its new growth initiatives in its compliance division.

Whitehaven Coal (WHC)
Whitehaven is predominantly a thermal coal producer and we are concerned about the outlook for this commodity. We took advantage of the spike in the share price driven by the highly uncertain Tinkler proposal to exit our position.

Australian Infrastructure Fund (AIX)
We sold out of our position post the announcement of a takeover for this vehicle as we saw the offer as fully valuing AIX.

Top Ten Holdings

We highlight below our top ten holdings within the portfolio, ordered by quarter end weight from top left to bottom right:

Carsales.com Ltd.	Super Retail Group Ltd.
Regis Resources Ltd.	REA Group Ltd.
McMillan Shakespeare Ltd.	Drillsearch Energy Ltd.
Flight Centre Ltd.	Ramsay Health Care Ltd.
Beadell Resources Ltd.	Independence Group N.L.

Number of stock holdings at 30 September 2012:	**47**

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