FAIRVIEW EQUITY PARTNERS

Performance Report – Emerging Companies Fund

Fairview Equity Partners is a new small cap 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 after fees.

Performance Return

Inception date 8 October 2008	Dec 08	Since inception
Fairview Equity Partners Emerging Companies Fund *	+5.33%	-13.90%
S&P/ASX Small Ordinaries Accumulation Index	+4.15%	-20.30%
Excess Return	**+1.18%**	**+ 6.39%**

** Returns are gross (pre fees)*

The S&P/ASX Small Ordinaries Accumulation Index gained 4.2% during the month of December. For calendar 2008 the cumulative decline was 53.2% (December quarter -29.2%). The Fairview Equity Partners Emerging Companies Fund has outperformed this benchmark by 6.4% since inception.

Market Review

December saw some modest relief within the small caps segment of the market, closing the month higher for the first time since August 2008. Within a circa 12% trading range the S&P/ASX Small Companies Accumulation Index closed the month on its highs, in fact gaining approximately 7% on low volumes during the brief period post the Christmas trading holiday.

Small cap resource companies (S&P/ASX Small Resources Accumulation Index +10.4%) strongly outperformed small industrials (+1.9%) during the month, having been sold down aggressively in recent months as commodity prices declined. Within the industrials space, several of the domestic cyclicals traded higher as the market attempted to look through current earnings pressures to the eventual leverage likely from aggressive monetary and fiscal stimulus.

The RBA again reduced cash rates in early December, to 4.25%, taking total easing to 300 b.p. over a 3 month period. The Australian dollar closed the month at 0.70 US dollars, rising from 0.65 at November end. Whilst the global economy continued to deteriorate during December, economic data out of Australia was reasonable, including a resilient labour market, easing interbank rates and a small increase in consumer confidence.

Portfolio Strategy and Market Outlook

Calendar 2008 was certainly a forgettable one for the equity market, and even more so for the smaller companies segment which lost more than half of its capitalisation. As we enter 2009 we do so with the small companies universe trading at around 7-8x forward earnings which is a ~40% discount to longer term averages and a sizeable discount to its larger company peers. Even adjusting for likely downgrades to market earnings estimates this certainly suggests that value exists for longer term investors. In the nearer term, volatility is likely to persist as the market oscillates its focus between the present (weakening economic data providing a challenging environment for most companies) and the future (likely recovery, aided by substantial fiscal and monetary stimulus).

Overlaying this on portfolio construction places a quandary on investors. Defensive sectors have performed very strongly in recent periods as investors seek to avoid near term earnings risk. However this has seen a substantial valuation range develop between cyclical and less cyclical companies to the extent now where valuations for the more defensive stocks are not that compelling.

We remain focussed on ensuring that the portfolio is appropriately balanced and contains a broad spread of sectors that provides for more consistent performance regardless of market cycles. Accordingly we continue to own many companies that have strong stock specific characteristic that allow for earnings growth regardless of economic conditions as well as those which benefit more from stronger economic conditions.

However given the more attractive valuations of many heavily discounted cyclical sectors we are now adding more to our preferred cyclical names that provide for more upside as both markets and economic conditions start to recover. We recognise that there is lingering near term earnings risk in some of these names but we believe that the market will increasingly look through current conditions and factor in earnings recoveries as economic conditions improve. Regardless of a company's cyclical exposure we remain highly selective on the companies we consider with a strong focus on balance sheets and business models that enable these companies to endure the current slowdown and prosper as activity rises.

Performance Attribution

Positive contributors	Mthly return	Position
Dominion Mining	28.1%	Overweight
Independence Group	45.5%	Overweight
Arrow Energy	28.2%	Overweight
Australian Infrastructure	24.6%	Overweight
Alesco	-48.5%	Nil Holding

Pleasingly, the largest positive contributors to relative performance during the month of December were once again primarily overweight positions in the fund. The positive contributors also remain diverse in their nature and characteristics. This is not surprising given our conscious desire to own a range of strong stock specific stories with characteristics enabling delivery of solid earnings and cash flow somewhat independent of the current moderating economic environment.

Dominion (DOM): Dominion was again a solid performer during the month, benefiting from recent gold price strength. Dominion is a domestically based, 2nd quartile cash cost, gold producer with a net cash position. It is well positioned with the market gaining a greater appreciation of its low cost expansion profile during the month.

Independence Group (IGO): Nickel supply cut announcements started to gather momentum during the month and the Nickel price rebounded strongly from a thoroughly beaten down level. Australian based low cash cost producers with net cash are our preferred exposures to the base metals sector. Independence Group satisfies all three of these criteria.

Arrow Energy (AOE): Corporate activity within the coal seam gas space continued during the month, further highlighting the attractions of this resource. AGL announced an agreed takeover of Sydney Gas, whilst also entering into an agreement with AJ Lucas with respect to its Gloucester Basin project. AOE itself announced an agreed takeover of Pure Energy during the month. Further strengthening its resource base and ensuring adequate supply for the proposed Gladstone LNG project. Sentiment toward the stock was further buoyed by both partial completion of the Shell transaction and speculation surrounding a near term announcement with respect to an offtake agreement for the proposed LNG project.

Australian Infrastructure (AIX): AIX rose solidly during the month, reversing some of the weakness of recent months. Recent data with respect to each of the Perth and Gold Coast airports continued to show solid passenger growth, highlighting that the exposure to attractive growth corridors and leverage to route expansion by the low cost airlines continues to more than offset broader economic slowdown and some of the capacity cuts made by the major airlines.

Alesco (ALS): During the month Alesco announced that it was reviewing the future operations of its New Zealand Robinhood appliance manufacturing business in response to a tough economic and competitive environment. Separately, and indeed more importantly, it reiterated that half year earnings were likely to be 30-35% lower than the prior corresponding period, acknowledged a requirement for broader ongoing restructuring within a challenging operating environment, flagged a suspension of H.1 dividends, and highlighted a need to reduce its gearing (possibly including a capital raising).

Negative Contributors	Mthly return	Position
Sino Gold Mining	38.1%	Nil Holding
Clough	-34.2%	Overweight
Challenger Financial Services	44.4%	Nil Holding
Spark Infrastructure	-6.5%	Overweight
Seven Network	30.5%	Nil Holding

Sino Gold Mining (SGX): Sino Gold rallied with the rest of the gold sector, its cash cost position suggests that it will benefit from gold price leverage. We prefer domestically based producers such as Dominion as the A$ came under pressure.

Challenger Financial Services (CGF): Whilst it remains down more than 70% from its highs, December was a strong month for CGF despite the absence of material stock specific newsflow. With each of its asset management, funds management, and mortgage businesses facing significant headwinds we do not currently see a compelling investment case for this stock.

Spark Infrastructure (SKI): During December the Australian Energy Regulator (AER) released its draft statement of revised parameters with respect to calculating cost of capital for the purposes of regulatory pricing. If implemented in their draft form these revisions would have the effect of lowering the available rate of return for its electricity distribution businesses in the period following the next regulatory reset.

Clough (CLO): Clough suffered from the deferral of the Devil Creek / Reindeer project by Apache Energy on 8 December. This project has since been revitalised with a natural gas supply agreement for Citic Pacific signed in early January. A declining crude oil price also did not help nearer term sentiment toward the oil and gas services sector.

Seven Network (SEV): There was little newsflow of relevance for SEV during the month, save for securing board representation on West Australian Newspapers (SEV owns 22%). Whilst SEV continues to trade at a discount to the sum of its parts, it is essentially an investment vehicle with a large cash holding which is yet to enunciate its investment mandate or strategy. As such, it is therefore difficult for us to have an investment insight.

Number of stock holdings at 31 December:	39