

Fairview Equity Partners Quarterly Investment Report December 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.

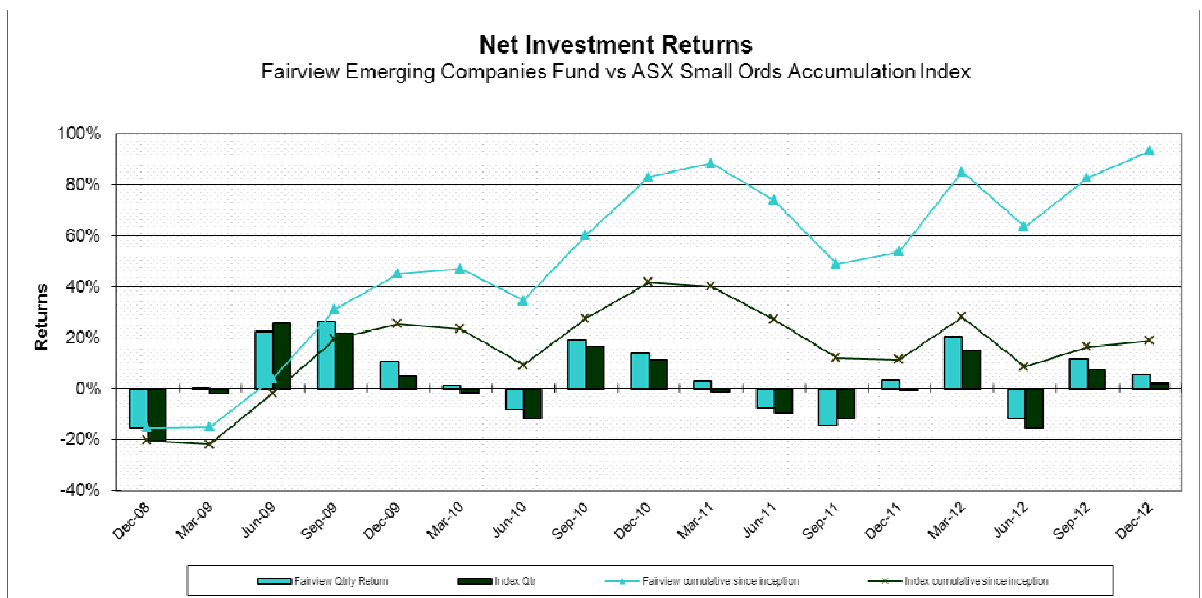
Performance Return

Period ending 31 Dec 2012	1 Month	3 Months	1 Year	3 Years [#]	Since inception [#]
Fairview Emerging Companies Fund*	4.34%	7.23%	32.90%	14.30%	21.33%
S&P/ASX Small Ordinaries Accumulation Index	3.23%	2.04%	6.58%	-1.81%	4.15%
Excess Return*	1.11%	5.19%	26.32%	16.11%	17.18%
Net Fund Return (after fees & expenses)	3.90%	5.75%	25.68%	10.01%	16.85%

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

The December quarter was a positive quarter in both relative and absolute terms as is displayed in the above table. Once again the alpha or excess returns above the benchmark have provided the bulk of returns to investors, with benchmark returns for the calendar year just concluded being far more modest than those delivered by the Fund.

During calendar 2012, the S&P/ASX Small Ordinaries Accumulation Index rose +6.5%. This was comprised of a 23.0% gain for the S&P/ASX Small Industrials Accumulation Index, whilst the S&P/ASX Small Resources Accumulation Index declined by a disparate 18.7%. The solid outperformance of the Fund against both of these Indices highlights the extent to which strong stock selection across a broad array of sectors, together with effective portfolio construction and risk controls, have again combined to deliver solid returns for investors.



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

Market Outlook

Equity markets finished the year with the usual smorgasbord of positive and negative considerations. On the positive side global monetary policy continues to be very supportive of promoting economic activity as well as providing investors with very low yields on cash and equivalent securities. This appears now to be producing tentative flows back into equities although economic activity still remains fairly muted in most Western economies.

The other key positive was the more promising data starting to come out of China with a solid manufacturing PMI being recorded in November. This is also further validated by the recent rebound in commodity prices with iron ore in particular bouncing strongly to rise from around \$90 US in September to over \$130 US.

The major negative is the weakness in the domestic economy that is causing the continued reductions in interest rates. Not only do most cyclical sectors remain subdued but there is also a rapid slowdown occurring in mining related activities with the obvious exception of oil and gas.

Portfolio Strategy

Although the Fund is now underweight the mining services sector due to slowing activity levels, we made some modest increases to the resources weight at the start of December. This was because we could no longer justify a materially underweight position due to a couple of key factors as discussed below. Firstly, resource stocks have performed very poorly this year and with the rebound in commodity prices there was a more compelling valuation story emerging. Secondly, December and January have an incredibly strong track record for delivering positive equity market returns and the key stocks that typically do well in better markets are the higher beta mining sectors. Accordingly, we made some significant increases to our preferred resources names.

Domestic cyclicals remain topical in the small cap space with aggressive RBA interest rate reductions being made to try and stimulate the economy. Obviously, though this is in response to persistently weak economic activity and we are yet to see any definitive signs of improvement in the more cyclical sectors. We currently have a modest exposure to these sectors and continue to be more attracted to companies that have strong company specific earnings drivers regardless of economic conditions. 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.

Performance Attribution

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

Positive contributors		Negative contributors	
Atlas Iron Ltd.	Overweight	Mineral Deposits Ltd.	Overweight
Super Retail Group Ltd.	Overweight	Regis Resources Ltd.	Overweight
McMillan Shakespeare Ltd.	Overweight	Perpetual Ltd.	Not Held
REA Group Ltd.	Overweight	IOOF Holdings Ltd.	Not Held
Discovery Metals Ltd.	Overweight	Mineral Resources Ltd.	Not Held

Major Stock Additions

Codan (CDA)

CDA is growing strongly primarily due to the dramatically increased sales of alluvial gold detectors. This is due to considerable recent prospector success in Africa (Sudan mainly) but increasing in other parts of the world which helps make this increase more sustainable.

Papillon Resources (PIR)

We have initiated a position in Papillon. This company's project at Fekola is a high grade, shallow deposit with a 3m oz resource that is open along strike and at depth. Our thesis is that the West African based Fekola project is a strong candidate for development, with incremental call option value due to the recent commencement of a near deposit 100,000 metre drilling campaign.

Cash Converters (CCV)

CCV is a high return on capital subprime financial services exposure with strong growth from UK financial services and store growth. We initiated our position via a placement made to acquire a string of franchisees.

Jumbo Interactive (JIN)

JIN is an online lotteries business that operate in most states of Australia. The online sales of lotteries has grown rapidly in recent years and JIN and Tatts are the 2 major players. We expect this growth to continue given the internet is a highly efficient and under-penetrated vehicle for on line lottery sales. The company is also at the early stages of moving into the significantly larger US market, which has begun to progressively opening itself up to online lottery sales.

Mayne Pharma Group (MYX)

We participated in the recent MYX placement, resulting from the company's purchase of Metrics Pharmaceuticals. We bought MYX on a FY13 PER of 7.6x with upside risk apparent from its licensing in Australia as well as new generic approvals in the USA.

Major Stock Disposals

SMS Management (SMX)

The sales pipeline has dried up dramatically for this former top performing IT consulting business. This has negative implications for the future profitability of the business.

Cardno (CDD)

We exited following a disappointing earnings update at their recent AGM. The update demonstrated a lack of visibility in management's earnings projection that made our valuation and thesis too unreliable.

Texon Petroleum (TXN)

We took advantage of the liquidity created by the takeover offer by Sundance Energy Australia to sell our residual position in Texon Petroleum.

VDM Group (VMG)

We exited our position in VMG after having already reduced it in May to the minimum position size. Two profit warnings due to poor project execution were our key concerns. This, when combined with a slowing pipeline of new design and construct work, suggests FY13 might be tough for this company.

Top Ten Holdings

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

McMillan Shakespeare Ltd.	Beadell Resources Ltd.
Super Retail Group Ltd.	FlexiGroup Ltd.
Drillsearch Energy Ltd.	Ramsay Health Care Ltd.
REA Group Ltd.	Regis Resources Ltd.
Independence Group NL.	Atlas Iron Ltd.

Number of stock holdings at 31 December 2012:

51

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