June 2010 Quarterly Retail Investment Report

Fairview Equity Partners – Emerging Companies Fund

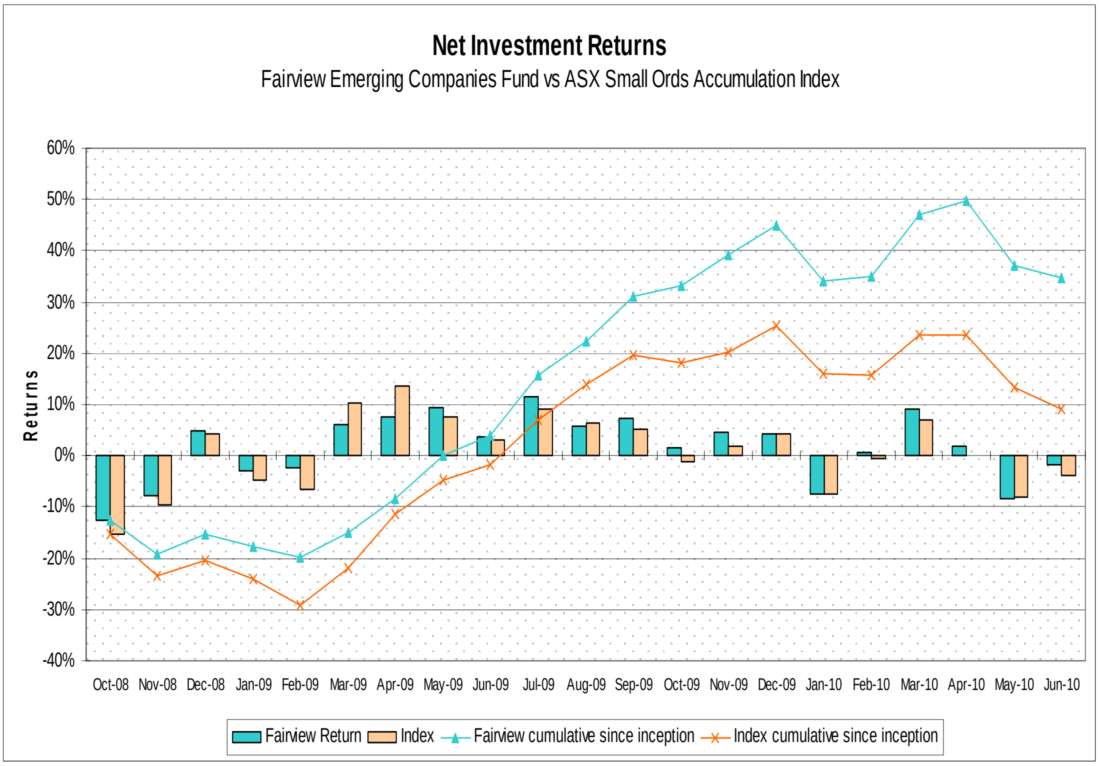
Fairview Equity Partners is a smaller company Australian equities manager. The Fairview Equity Partners Emerging Companies Fund seeks to provide capital growth and some income by outperforming the S&P/ASX Small Ordinaries Accumulation Index over the medium to long term.

Performance Return

Period ending 30 June 2010	1 mth	3 mths	12 mths	Since inception #
Fairview Emerging Companies Fund *	-1.78%	-8.45%	29.49%	18.78%
S&P/ASX Small Ordinaries Accumulation Index	-3.73%	-11.59%	11.18%	5.23%
Net Excess Return	**1.95%**	**3.14%**	**18.31%**	**13.55%**

** Returns shown are net of fees (including management and performance fees) but before tax*
 # Annualised. Fund incepted 8 October 2008

The June quarter saw a reasonable correction in equity markets including a decline in the S&P/ASX Small Ordinaries Accumulation Index of 11.6%. Such corrections are fairly typical during equity market recoveries particularly given the impressive increase they have had since March last year. As discussed below we believe this has restored stock valuations to very attractive levels when compared to their historic multiples. The Fairview Emerging Companies Fund solidly outperformed during the quarter, maintaining its very consistent relative track record having added value in 15 out of 21 months (on a net returns basis) since inception.



Market Outlook

The sell off that occurred in May has brought the small cap market into extremely cheap value territory with the benchmark market multiple now around 11x one year forward earnings. This compares very favourably to the longer term average of 14/15x particularly when earnings are still growing above average as companies recover from the GFC.

Investors are typically rewarded at these entry points with March last year being a fairly obvious and recent reference point. Certainly there are risks to certain global economies, but there always are, and it is important not to give undue consideration to sentiment that is far more volatile than the reality of global economic recovery that is slowly occurring (albeit with hiccups along the way). It is also fair to suggest that you don't see such attractive valuations without a reasonable level of risk. The key is to ensure sufficient balance and not be excessively conservative at attractive points in the investment cycle.

Balance sheets have been significantly strengthened, with companies generally well positioned to fund available growth. In several cases excess capital now exists.

Apart from valuations the other key driver for equity markets is earnings revisions and these are currently very positive compared to the last few years with the number of downgrades being well below what is average for this stage of the year. Commodity prices continue to strengthen and significant expansion projects have commenced / recommenced. This will significantly buoy both the general economy and more specifically the mining and ancillary services sectors. Following approximately 175 corporate contacts during the June quarter we are certainly encouraged by both the progress and prospects of most of the companies we contacted.

On the negative side there is currently some weakness in domestic discretionary spending due to a combination of interest rate rises and strong prior corresponding period sales. This is causing weakness in the earnings outlooks for both retail and building material stocks. The last two months have seen particularly challenging trading conditions, with sales growth stalling for many listed retailers.

Finally we firmly believe that many stocks still offer outstanding value given their growth prospects and low multiples. Over half the stocks in the fund have a PER forward rating of below 11.5x which is indicative of the considerable investment opportunities we are seeing in the small cap space.

Portfolio Strategy

There have been some modest changes to the composition of the fund as we respond to the evolving investment climate and outlook. Although we believe the broader outlook is still very sound we acknowledge that there are heightened risks materialising in certain sectors.

We continue to struggle to find investment grade opportunities in agricultural stocks as the business models are typically sub standard. Healthcare is also a sector we remain underweight in due to both ongoing regulatory risk and escalating downgrades in pathology earnings.

We have increased our weights in coal and mining services. Coal companies are benefitting from an ongoing tightness in supply (as opposed to other commodities) that is continuing to drive up prices as well as a declining $A. There is also rampant corporate activity underpinning many share prices. We are particularly attracted also to services companies operating in coal and oil & gas. In spite of the proposed changes to the mining tax regime there is no shortage of projects underway that are generating substantial prospects for the related services companies.

We remain broadly attracted to those sectors (eg media, financials, IT services) that are benefitting from a continued rebound in business activity as well as those with strong growing franchises that are not that economically sensitive. Valuations are once again extremely attractive with the fund's overall P/E sitting on around 10x next year's earnings.

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Performance Attribution

We highlight below the largest positive and negative relative performance contributors during the June 2010 quarter.

Positive contributors		Negative contributors	
McMillan Shakespeare	Overweight	Cooper Energy	Overweight
Virgin Blue	Nil Holding	Healthscope	Nil Holding
Mineral Resources	Overweight	Eldorado Gold	Nil Holding
Independence Group	Overweight	Riversdale Mining	Nil Holding
Medusa Mining	Overweight	AWE	Overweight

Major Stock Additions

Mastermyne Group (MYE): We initiated a position in this company via the initial public offering that took place earlier in the quarter. We believe the prospects for this company are outstanding given it is totally focussed on servicing the domestic coal industry. We are also attracted to the highly recurring nature of its earnings with most of its revenues coming from ongoing mine maintenance and extensions. Given this profile we regarded the sub 10x IPO pricing as extremely appealing.

Gerard Lighting Group (GLG): We bought into this small IPO. Gerard's prospectus forecasts appear conservative regarding FX benefits, international operations and margins. We highlight the strong order books out of hospitals, schools, improvement in broader residential and commercial market activity as well as medium term technology shift to lower energy products (higher selling price, higher $GM).

Matrix Composites and Engineering (MCE): We are excited by the opportunities in this small oil services company. Underlying product demand is growing at 40% per annum; we forecast that even with $250m sales, Matrix will not even reach underlying demand of $350m in 2012. Relocation to larger, low cost facilities will reduce overhead by $8m (8% of revenues) per annum from 1Q FY11.

Miclyn Express Offshore (MIO): We bought into Miclyn post its substantial decline since listing which has resulted in a very appealing valuation. We are attracted to its large exposure to offshore oil and gas projects and believe it is well placed to deliver earnings upside in excess of its prospectus estimates.

Major Stock Disposals

Navitas (NVT): We exited our position in NVT due to a decline in the medium term prospects for its key Australian learning programs. Although NVT has done well to open up offshore campuses these are still a much longer term proposition with a more uncertain path to profitability. It appears that its Australian operations are maturing more quickly than we anticipated plus there is some shorter term cyclical weakness arising from less international students coming to Australia.

Wotif (WTF): We sold our position in WTF following outlook comments suggesting that this year's earnings were potentially going to be weaker than our original expectations. Given the premium valuation on this company we don't believe it can afford to disappoint the market on its earnings outlook. We will revisit the stock post its full year result and seek greater clarity on the medium term outlook for the business

Probiotec (PBP): We exited this long term position as its thesis had degraded due to lower than expected domestic sales of its key product as well as issues regarding the accounting for new acquisitions.

Mermaid Marine Australia (MRM): We exited our position in MRM due to the extreme valuation differential that has arisen between itself and close peer Miclyn (discussed above). Whilst we remain attracted to the outlook for Mermaid we believe this is largely priced in especially given a highly leveraged balance sheet.

Number of stock holdings at 30 June:	51

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