

Fairview Equity Partners Quarterly Investment Report September 2010

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.

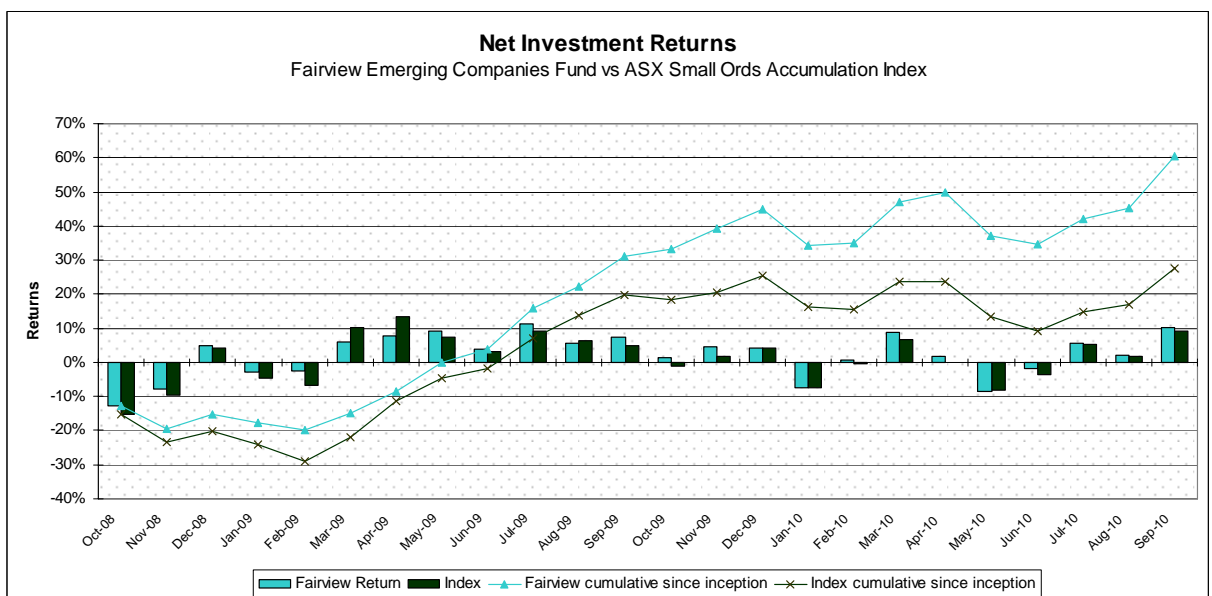
Performance Return

Period ending 30 September 2010	1 Month	3 Months	12 Months	Since inception [#]
Fairview Emerging Companies Fund*	10.99%	19.93%	27.24%	31.51%
S&P/ASX Small Ordinaries Accumulation Index	9.07%	16.83%	6.63%	13.11%
Excess Return*	1.92%	3.10%	20.61%	18.40%
Net Fund Return (after fees & expenses)	10.40%	19.13%	22.22%	26.96%

* Returns shown are gross at a manager level (pre fees)

Annualised. Fund inception 8 October 2008

The September quarter saw a strong performance from the benchmark with a particularly impressive return in the month of September. The Fairview Emerging Companies Fund outperformed in every month during the quarter and posted a solid overall quarter of out-performance. This result was extremely pleasing given most of the peer group of small cap managers significantly under-performed the benchmark. We are very happy with the consistency of the fund's performance having now added value in 20 out of 24 months since inception (in gross terms). This provides for a risk adjusted return that would be at the top of peer manager results since our inception date of almost two years ago.



Market Outlook

Despite adverse sentiment in the early to middle part of this year we have consistently suggested that the prospects for small cap equities were outstanding. This was due to extremely cheap valuations, improving corporate earnings, accelerating M&A activity and finally significantly de-levered corporate balance sheets.

The benchmark's rise in September reduces the valuation appeal to a modest extent but the fund is still on aggregate only trading on 10.3 times next years earnings which is still well below longer term benchmark averages of 14-15x. Reporting season went pretty much as expected and provides a solid base for the year ahead.

There is very little change to our outlook from previous months. There has also been very little change to the list of economic issues that are occupying investor's thoughts. We continue to believe that macro risks are fairly constant and modestly over-rated as opposed to sentiment that is very volatile and difficult to predict. Sentiment has turned more positive in recent weeks for no apparent reason other than perhaps a renewed stimulatory approach from the US central bank. Many commentators continue to obsess about guessing what the Chinese economy might do. Our view is that the Australian economy simply requires modest medium to longer term Chinese growth (and other Asian economies) to continue moving forward as opposed to dramatically surprising on the upside or downside with spurious short term data points.

Portfolio Strategy

We continue to advocate a reasonably cyclical bias to portfolio construction with a particularly strong over-weight in mining services stocks. The outlook for many mining services stocks is extremely promising given the massive amount of projects being slated over the next few years. Accordingly we are strongly positioned in many names in this sector.

Reporting season as always provided an en masse opportunity to assess the progress of most of our investee companies. Apart from a couple of exceptions we were extremely pleased with the performance and prospects of the stocks held in the fund. Accordingly there have only been fairly modest changes to the composition of the fund although we have added several new names in the gold sector. We are still seeing plenty of exciting investment opportunities for consideration and are making necessary changes as required. Pleasingly fund turnover is now close to the bottom of our targeted range and is now at 44% for the last year.

Performance Attribution

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

Positive contributors		Negative contributors	
Andean Resources	Overweight	Lynas Corp	Nil Holding
McMillan Shakespeare	Overweight	Thinksmart	Overweight
Discovery Metals	Overweight	Peet	Overweight
Forge Group	Overweight	Cochlear	Overweight
Centennial Coal	Overweight	Retail Food Group	Overweight

Major Stock Additions

Gloucester Coal (GCLN) - We initiated a position in this company post a substantial company restructure that took place during the quarter. The first component was a substantial sell down from Noble who previously owned most of the shares in the company. This allowed sufficient stock for institutional investors to go back on the register in what was previously a very tightly held company. Secondly they purchased half of the Middlemount mine which will have the effect of making the company a more meaningful producer. Given the NPV discount that GCL was trading on versus the peer group at the sell down price we established a position.

Adelaide Brighton (ABC) - The company is well positioned in two key growth areas in WA mining project spending and SA civil projects. This is allowing the company to achieve record cement sales and strong margins. We are also impressed with the stability in the construction market sector with strong pricing and stable shares allowing solid returns to most participants. We believe ABC is the most compelling domestic construction play and has further upside from a rebound in activity in the currently subdued eastern states of Australia.

Breville Group (BRG) - Prior to reporting season our preference had been to hold McPhersons in the household consumables space but we now believe that BRG has far more compelling prospects. In particular its US business has substantial growth potential from a very low base, and its stronger brands domestically provide it with good pricing power and upside from improved retail conditions in Australia. We believe the company has substantial valuation and earnings upside.

Regis Resources (RRL) – Medusa Mining (MML) switch - We sold Medusa in the quarter for two reasons. Firstly we grew concerned about thesis degradation resulting from slower production growth to 130k oz than we had initially envisaged when we entered the stock 18 months previously. Secondly the stock had come close to hitting its price target and was no longer relative value. We switched to Regis due to our expectations for a much stronger production growth profile at both Regis' Garden well and Moolart well deposits. This has since been confirmed by an exciting Garden well resource upgrade to 1.2m oz.

Major Stock Disposals

Centennial Coal (CEY) - We exited our position post the takeover announcement from Banpu. The stock traded up to the takeover price that we viewed as very full and unlikely to be increased. With only a small return available from waiting for takeover completion and some possible risks around the conditions of the bid we were happy to switch into another coal mining name.

Mitchell Communication Group (MCU) - Similar to Centennial, MCU received a friendly takeover proposal from an offshore peer that quickly saw the share price trade up to the announced takeover price. Our typical procedure is to exit such holdings as there are only small returns available from holding until such takeovers are completed.

McPhersons (MCP) - This stock has been an excellent performer for the fund and we believe our investment thesis has largely played out. We were also hoping that the company would have demonstrated more emphatic margin improvement in the second half of FY10 and with this not occurring we were no longer getting sufficient valuation upside to warrant a position.

Number of stock holdings at 30 September 2010:	49
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