

## October 2009 Institutional Investment Report

### Fairview Equity Partners – Emerging Companies Fund

Fairview Equity Partners is a 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.

### Performance Return

| Period ending 31 October 2009               | 1 mth        | 3 mths       | 12 mths       | Since inception # |
|---|--------------|--------------|---------------|-------------------|
| Fairview Emerging Companies Fund *          | 2.40%        | 16.47%       | 57.00%        | 35.67%            |
| S&P/ASX Small Ordinaries Accumulation Index | -1.18%       | 10.41%       | 39.65%        | 17.06%            |
| <b>Excess Return *</b>                      | <b>3.58%</b> | <b>6.06%</b> | <b>17.35%</b> | <b>18.61%</b>     |

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

# Annualised. Fund inception 8 October 2008

The S&P/ASX Small Ordinaries Accumulation Index declined for the first month since February to close down 1.2% during October. Calendar year to date performance for the benchmark remains a still impressive +48.3%. Relative to the market decline our fund posted solid absolute and relative gains during October, continuing the positive progress since inception.

### Market Outlook

As we sit here today, in the market there remains some debate around whether we are seeing a mild correction on a continued upward journey (some would say the pullback we had to have), or whether there is cause for more genuine concerns around the fragility of any economic recovery. We are certainly more in the former camp. We still view that macro economic data predominantly remains encouraging, whilst recent company releases and updates are similarly taking on a more positive tone (albeit cautiously so in several cases). Domestically, the shift to a tightening monetary policy phase is a clear indicator that central bankers view that the worst has passed, whilst the increased call for a wind back of fiscal stimulus is similarly formulated. Whilst ultimately aimed toward moderating demand and inflationary pressures over the next 12 months, we are more inclined to view rising rates as a symptom of recovery, not a threat to recovery.

### Portfolio Strategy

We continue to position the portfolio to take advantage of an increasingly broad based recovery in the more cyclical sectors of the market. This has now extended to IT services, media, financials and resources plus related services companies. We have reduced our aggregate positions in retail as valuations for several companies within this sector have become increasingly unattractive.

We would stress though that careful scrutiny and stock specific considerations must be undertaken before taking positions. We have seen ample recent evidence that a company does not automatically benefit just because it is in a seemingly favourable sector. Delays are still evident in many major projects and this has resulted in major profit warnings from companies exposed to new infrastructure and commercial property. Overall though the outlook for the Australian economy remains very positive and we are well positioned to benefit from this.

## Performance Attribution

We highlight below the largest positive and negative relative performance contributors during the month of October.

| Positive contributors          |            | Negative contributors |               |
|--------------------------------|------------|-----------------------|---------------|
| Peet                           | Overweight | Crane Group           | Overweight    |
| Webjet                         | Overweight | Super Cheap Auto      | Overweight    |
| Australian Infrastructure Fund | Overweight | Virgin Blue           | Nil Weighting |
| APN News & Media               | Overweight | DKN Financial         | Overweight    |
| Oakton                         | Overweight | Flight Centre         | Nil Weighting |

|  |           |
|--|-----------|
| <b>Number of stock holdings at 31 October:</b> | <b>51</b> |
|--|-----------|

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