

May 2010 Institutional 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 31 May 2010	1 mth	3 mths	12 mths	Since inception #
Fairview Emerging Companies Fund *	-8.34%	2.46%	41.90%	25.54%
S&P/ASX Small Ordinaries Accumulation Index	-8.18%	-1.88%	19.01%	7.98%
Excess Return *	-0.16%	4.34%	22.89%	17.56%

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

Annualised. Fund inception 8 October 2008

The month of May saw a substantial correction in equity markets and our fund performed fairly much in line with the benchmark. Such corrections are very standard during equity market recoveries and this is the fifth we have seen since markets began their recovery in March last year. As we discuss below we don't believe there is cause for undue pessimism or for being excessively defensive in the way the portfolio is positioned.

Market Outlook

Investors are now presented again with equity market valuations very similar to those of early 2009. In fact the small cap equity benchmark is once again trading on 10.5x one year forward earnings. Historically this has proven to be a very attractive entry point as the median multiple has been closer to 14-15x over the longer term.

Such multiples don't present themselves without a degree of risk however investors should be prudent in their assessment of risk and not unduly focus on the potential negatives. Many investors missed last year's strong rally due to excessive caution and a lack of regard for the extremely attractive valuations on offer.

Equity markets always entail a degree of risk and share price volatility and the current environment certainly features this at present. Typically though conditions are rarely as bad as investors think or as good as they might imagine when sentiment is more positive. The old adage of buying when others are fearful and selling when others are greedy has come to the fore again.

Whilst we recognise that there are elevated levels of global uncertainties, particularly related to Europe, it is important to consider positive developments as well. Firstly, corporate balance sheets are extremely conservative compared to history following substantial restructuring over 2009. Secondly, earnings are recovering both domestically and abroad with revisions turning distinctly positive. Thirdly, global economic recovery is slowly taking place albeit with reasonable volatility. Finally the longer term BRIC industrialisation thematic is still playing out, with many regions like India and Indonesia in the infancy of such progress.

Following over 100 corporate visits during the month of May we are certainly encouraged by both the progress and prospects of most of the companies we contacted. Global commodity demand is driving long term investment in Australian resource projects. Many of these projects have been years in the pipeline and are based on long term forecasts that project well beyond the immediate economic climate. This continues to drive a robust domestic activity with strong employment levels being a significant positive for the Australian economy.

In summary the key drivers are generally supportive. Valuations are so cheap that both corporate and private equity activity is intensifying, earnings growth is accelerating, and the risks are nowhere near as acute as at the height of the GFC. Accordingly, in our view another opportunity has presented itself.

Performance Attribution

We highlight below the largest positive and negative relative performance contributors during the month of May 2010.

Positive contributors		Negative contributors	
McMillan Shakespeare	Overweight	Healthscope	Nil Holding
Virgin Blue Holdings	Nil Holding	Horizon Oil	Overweight
Macarthur Coal	Nil Holding	ResMed	Nil Holding
Ausenco	Nil Holding	Eldorado Gold	Nil Holding
Medusa Mining	Overweight	Mineral Resources	Overweight

Number of stock holdings at 31 May:

50

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