

Fairview Equity Partners

Monthly Institutional Investment Report

July 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 31 July 2010	1 Month	3 Months	1 Year	Since inception [#]
Fairview Emerging Companies Fund*	5.59%	-4.55%	27.43%	25.71%
S&P/ASX Small Ordinaries Accumulation Index	5.21%	-7.00%	7.30%	7.97%
Excess Return*	0.38%	2.45%	20.13%	17.74%

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

Annualised. Fund inception 8 October 2008

The benchmark recovered strongly in July following the correction from April to June. This was primarily driven by gains in resource stocks that benefited from some stabilisation in commodity prices and a less punitive mining tax amendment. It was extremely pleasing to see another month of out-performance from the fund as it would appear that the majority of our small cap peer funds under-performed the index during July.

Market Outlook

We have not changed our positive view on the prospects for above average small cap equity returns. As a quick re-cap we believe valuations are extremely supportive, earnings revisions are positive and balance sheets are very conservative. It is rare to have all these key factors getting a big tick at the same time. Finally we believe that investors should not excessively focus on European and US issues as it is Australia's Asian exposure that is the key to our economic strength particularly in the mining sector which is close to 50% of the smaller companies universe.

Reporting season has started strongly with positive earnings surprises coming from a range of stocks including Amcom, Hills Industries, Navitas and GUD. Margin improvement has been a key feature of these results although top line numbers are also showing improvement particularly in sectors like media and IT where businesses are once again renewing their discretionary spend.

Negative results are in the minority although they will be well publicised. Obvious examples include Kathmandu and Premier which are apparel retailers. Poor discretionary retail conditions remains at odds with the rest of the economy and the apparel component also has some persistent structural flaws that have generally kept us on the sidelines. Retail is likely to become more attractive as the impact of low unemployment eventually leads consumers to start spending more freely.

Another pillar of support is coming from renewed corporate activity as acquirers take advantage of cheap valuations to make opportunistic purchases. Corporates are often astute long term buyers who are not unduly influenced by erratic investor sentiment that can depress share prices in the short term. Clear evidence of this is coming in the coal sector with substantial consolidation taking place amongst the remaining independent producers.

In summary we don't subscribe to being defensively biased at present despite such an apparent jittery shift coming from other participants. However, should economic conditions deteriorate dramatically, our core investment style ensures that we have a substantial number of more economically insensitive stocks that should provide for a reasonable level of relative out-performance if markets fall.

Performance Attribution

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

Positive contributors		Negative contributors	
Mitchell Communications	Overweight	Lynas	Nil Holding
Centennial Coal	Overweight	Thinksmart	Overweight
Independence Group	Overweight	Horizon	Overweight
McMillan Shakespeare	Overweight	Cochlear	Overweight
Forge Group	Overweight	REA Group	Overweight

Number of stock holdings at 31 July 2010:	51
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