

Fairview Equity Partners Quarterly Investment Report December 2011 - Institutional

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.

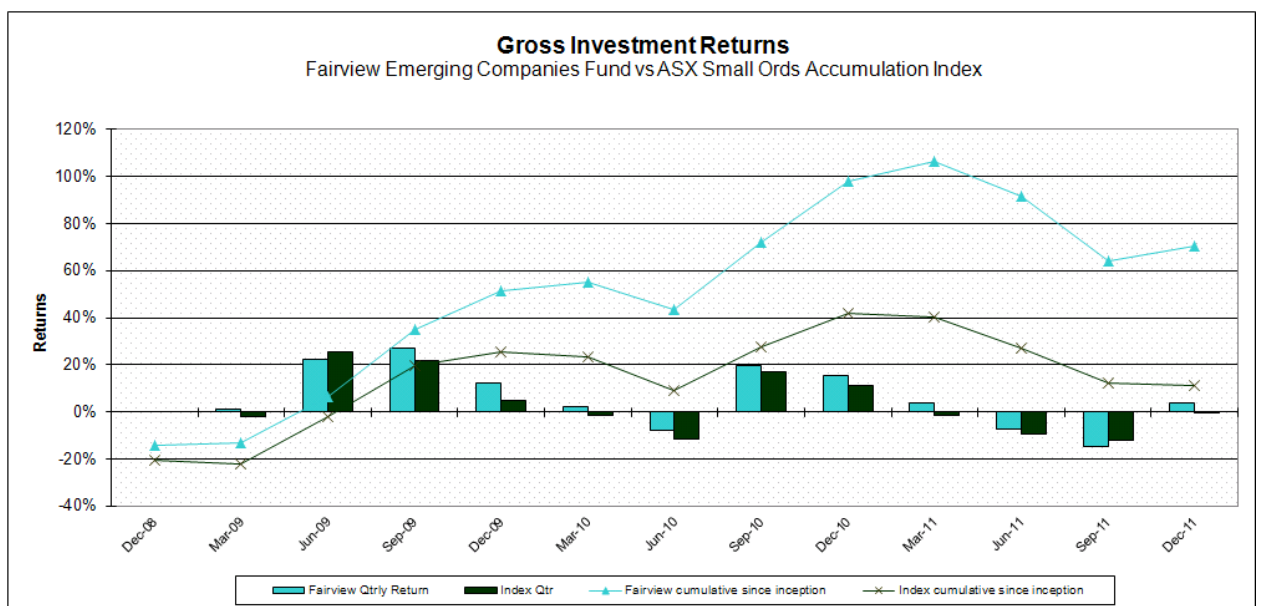
Performance Return

Period ending 31 Dec 2011	1 Month	3 Months	1 Year	3 Years [#]	Since inception [#]
Fairview Emerging Companies Fund*	-2.43	3.88	-14.00	25.59	17.96
S&P/ASX Small Ordinaries Accumulation Index	-4.30	-0.60	-21.43	11.83	3.42
Excess Return*	1.87	4.48	7.43	13.76	14.54

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

Returns over one year are annualised. Fund inception 8 October 2008

The Small Ordinaries Accumulation Index ended the quarter slightly down after some further significant volatility during the quarter. Pleasingly, the fund strongly out-performed the benchmark which provided investors with a net return that was solidly positive.



Return and Index for Quarter ending Dec 2008 not shown as only a part period, but included in cumulative return series.

Market Outlook

Macro oscillations were again significant with the seeds of optimism that became apparent in October being quickly eradicated by very negative equity market performances in November and December. Our observation is that a big bang solution to the European crisis is unlikely and markets will remain volatile until there is improved clarity on any potential solutions. Therefore it is particularly difficult to make confident market calls in the present environment.

However, we would continue to suggest that outside European fundamentals remain fairly supportive in terms of company valuations, corporate activities and major resources projects. Further to this, resources and resources services companies are being treated in a very indiscriminate fashion by the market at times and this is presenting investors with some excellent buying opportunities. Our long term view remains that in the absence of major contagion, the resource sector should perform strongly over the next few years. A substantial market rally remains on the cards should some modest progress become apparent in Europe.

Portfolio Strategy

We do not anticipate any major changes to the fund's composition until well into reporting season. News flow tends to be fairly muted in December and January while many companies are in an investor blackout period. We are certainly maintaining most of our mining related positions as we still think the medium term outlook in that sector is solid and their valuations are attractive. We also think that these will be the stocks that will lead a rise in markets when conditions become more favourable. Activity levels in the non-mining domestic cyclicals are still very weak and we would suggest it is too early to move aggressively into those sectors.

Performance Attribution

We highlight below the largest positive and negative relative performance contributors during the quarter of December 2011.

Positive contributors		Negative contributors	
Regis Resources Ltd	Overweight	Beadell Resources Ltd	Overweight
Aurora Oil & Gas Ltd	Overweight	Karoon Gas Australia	Not Held
Red Fork Energy Ltd	Overweight	Flinders Mines Ltd	Not Held
Gloucester Coal Ltd	Overweight	Kathmandu Holdings	Overweight
Medusa Mining Ltd	Not Held	Acrux Ltd	Overweight

Major Stock Additions

Acrux (ACR)

We entered Acrux during the quarter. Acrux receives royalties for Axiron. This is a superior product in the rapidly growing US testosterone market. Eli Lilly, a first rank men's health big pharma company, is Acrux's marketing partner. Our key insight is that Lilly is aiming for market leadership. We also consider analysts are under-estimating testosterone market growth rates. This was demonstrated in a recent quarter with 29% market growth printed.

Drillsearch (DLS)

We also initiated a position in Drillsearch. This company is focused on onshore, brownfield oil and gas in the Cooper Basin, close to existing infrastructure. There is strong potential to produce 5000boe/day in FY13, which is 25% above current market estimates. Drillsearch is commencing a strong conventional drilling campaign in the second quarter of FY12. There is also unconventional shale valuation upside. This is courtesy of Beach Petroleum's adjacent tenement shale drilling that starts in 2012.

Whitehaven (WHC)

We bought into this company post the merger announcement with Aston Resources that we were positively disposed to. The transaction significantly de-risks the two companies that had excessive reliance on early stage single mine operations and in Aston's case significant infrastructure uncertainties.

Ausdrill (ASL)

We commenced a position in Ausdrill as the valuation has become attractive after recent under-performance. We also met the company during the quarter and were extremely encouraged about both their short and long term prospects. This company provides drilling services for production in gold and to a lesser extent iron ore mines

Major Stock Disposals

Kathmandu (KMD)

We exited our position following a major negative profit update in December. The outlook also remains poor as margins will now have to be sacrificed to clear excess stock.

Gerard Lighting (GLG)

We sold out of Gerard as we now believe it will be extremely challenging for them to grow their earnings over the few years. Liquidity in the stock also remains poor and we think it will be hard to maintain a meaningful position in the company.

Hunnu Coal (HUN)

We sold our shares once it became apparent the takeover for the company was going to succeed.

Top Ten Holdings

We highlight below our top ten holdings within the portfolio, in alphabetical order (by month end weight):

Acrux Limited	Flight Centre Ltd
Aurora Oil and Gas Ltd	McMillan Shakespeare Ltd
Australian Infrastructure Fund Ltd	REA Group Ltd
Carsales.com Ltd	Regis Resources Ltd
Challenger Limited	SAI Global Ltd

Number of stock holdings at 31 December 2011:

47

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