September 2009 Retail Quarterly Investment Report

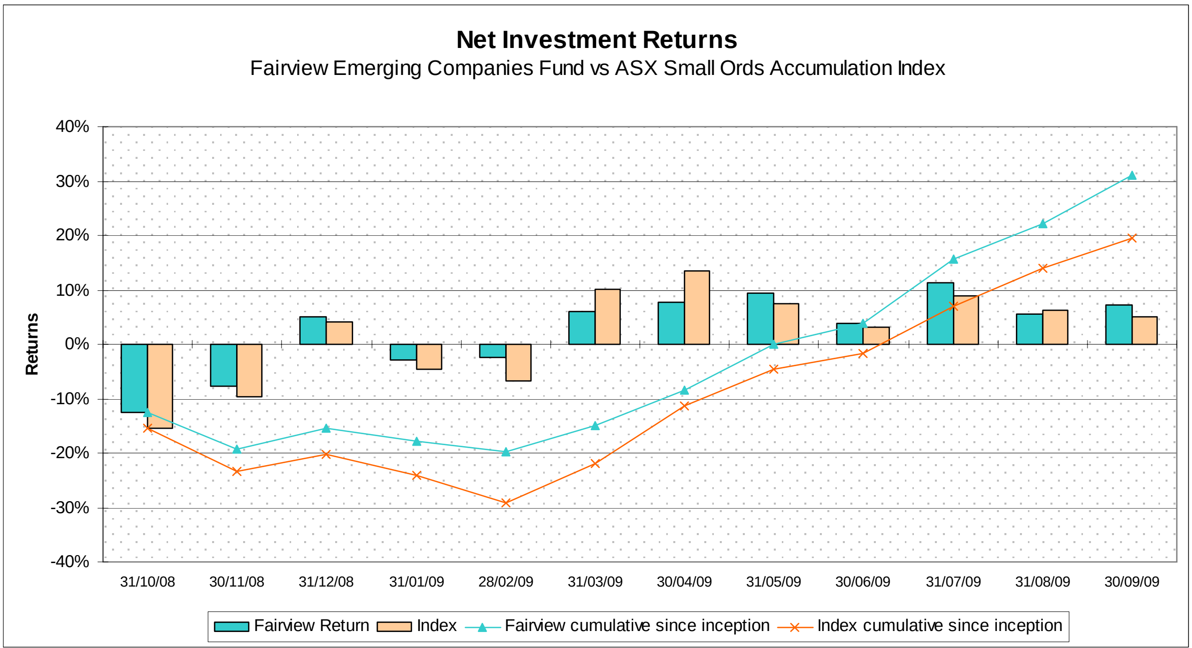
Fairview Equity Partners – Emerging Companies Fund

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 30 September 2009	1 mth	3 mths	6 mths	Since inception #
Fairview Emerging Companies Fund *	7.28%	26.23%	54.30%	31.17%
S&P/ASX Small Ordinaries Accumulation Index	5.05%	21.82%	53.11%	19.65%
Net Excess Return	**2.23%**	**4.41%**	**1.19%**	**11.52%**

Returns shown are net of fees (including management and performance fees) but before tax
 # Fund incepted 8 October 2008



The S&P/ASX Small Ordinaries Accumulation Index continued to move higher during the September quarter, rising a further 21.8%. This was supported by encouraging economic data, improving consumer and business confidence levels, and a 2009 full year reporting season which on aggregate managed to positively surprise relative to expectations. Within this environment it is pleasing to be solidly outperforming our benchmark and delivering strong absolute gains to investors.

We disagree with the contention that following its sizeable rally the market must be expensive. The rise in the S&P/ASX Smaller Companies Index from its March lows has got it back to October 2005 levels, still approximately 40% off its November 2007 highs. Indeed the market is not quite at levels achieved prior to the September 2008 collapse of US investment bank Lehman Brothers, at which time concerns around a significant economic slowdown turned to fears of a full scale meltdown of the financial system. In fact much of the gain in the market this year has simply reflected removal of the extreme under valuation evident early this year and that current share prices have on average done no more than restore more normalised valuation levels based on cyclically low earnings.

Portfolio Strategy

Pleasingly the upward trend in equity markets is now being complimented by reduced volatility as broader economic conditions begin to stabilise. This is providing for lower portfolio turnover than previously elevated levels of earlier in the year.

Although the strong re-rating in the deeper cyclical sectors has probably played out to a large extent we are still maintaining a modest pro-cyclical tilt, as that is where we think there is still more relative valuation appeal and upside from positive earnings revisions. Fundamentally though we are returning to a more classical stock pickers market as relative sector performance differentials are likely to be more modest going forward. Accordingly we do not anticipate making any material adjustments to the structure of the fund but rather we will continue our strong focus on investing in those stocks that are the most attractive investments within the various sectors.

We believe there are still an abundance of opportunities that the fund is seeking to take advantage of. These include many domestic cyclical sectors such as media, retail, residential construction and IT services. Additionally we retain several positions exposed to more global dynamics especially in energy related resource companies. Finally we continue to hold a number of companies with strong franchises that will grow their earnings strongly somewhat independently of economic conditions.

Market Outlook

As always the medium term prospects for domestic equity markets are of significant interest to investors. We are always reluctant to be overly definitive on more precise shorter term predictions as such an exercise is generally a very difficult one. We would however encourage investors to be balanced in their thoughts and consider the key factors that typically drive markets. They do not provide for exact predictions or short term moves but are rather more pointers of the general direction.

Our sense is that many investors remain somewhat shocked and possibly sceptical about the strong recovery in equity markets and this is heightened (understandably) by the unnerving experiences of the extreme falls that took place in the bear market. We would suggest that the erratic previous behaviour of the market is not that relevant and it is the forward looking indicators that investors should be focussed on. Pleasingly most of these are very supportive of continued strength in equity markets and investors are likely to be positively surprised over the medium term. We examine these in detail now:

Valuation: Market P/E ratios are still at reasonable discounts to historical averages and balance sheets are more conservative now. The earnings risk profile has also significantly reduced from earlier in the year. Equities continue to compare well to fixed interest assets from a yield perspective and offer a more effective inflation hedge going forward. Small caps remain at an above average discount to large caps despite being a more economically leveraged basket of stocks.

Earnings revisions: These are traditionally a key driver for equity markets and they are starting to trend up again reflecting improved economic conditions and analysts being too pessimistic on the way down. Further to this the significant costs that were taken out by many corporates during the downturn provides for stronger profit recovery as revenues recover.

Economic: Conditions are starting to normalise now with an accompanying reduction in risk. Developed economies are starting to stabilise with emerging economies still well placed for above average growth. Australia in particular is proving to be a stand out economy with solid fundamentals and continued exposure to Asian growth.

Capital Flows: are coming steadily back into equities as investors re-weight. Pleasingly cash levels remain high from a historical context and institutions are still largely underweight. This could also be complimented by increased off shore flows as a positive view on the $A gains traction.

In summary conditions are starting to normalise and although we are not suggesting the market will rise in a straight line there does appear to be a strong case for a sustained rise in the domestic equity market nor are there any obvious triggers for a significant market fall.

Fairview Equity Partners Pty Ltd Level 4, 141 Flinders Lane Melbourne VIC 3000

Phone: 03 9929 9441 | Fax: 03 9650 6199 | AFSL 329052 | www.fairviewequity.com.au

Performance Attribution

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

Positive contributors		Negative contributors	
McPhersons	Overweight	Pacific Brands	Nil / Overweight
Sedgman	Overweight	ING Industrial Fund	Nil Weighting
Retail Food Group	Overweight	Ramsay Healthcare	Overweight / Nil
CSG	Overweight	Independence Group	Overweight
Mitchell Communications	Overweight	Emeco	Nil Weighting

Major Stock Additions

Oakton (OKN): We initiated a position in OKN during the September quarter, viewing the stock to be undervalued relative to its improving earnings profile. In our view more recent improvements in activity levels within the IT services sector combined with company specific restructuring initiatives will deliver both revenue growth and profitability margins over the next 1-2 years which will exceed current market expectations.

Horizon Energy (HZN): We increased our net position in the oil and gas sector through the purchase of Horizon during the latter part of the quarter. HZN's 10% interest in the Maari field off New Zealand will continue to provide strong cashflows and enable exploration and development programs to be funded, including the highly prospective Manaia field off New Zealand and projects in PNG and China. In the case of PNG, the recent transactions undertaken validate a valuation which significantly exceeds those previously ascribed by the market.

McMillan Shakespeare (MMS): One of the star results from the August reporting season, with the increased sales focus under the new MD being demonstrated at the revenue line. Continuing competitor funding constraints suggest the company may enjoy net wins for major salary sacrifice contracts in the next two years. Whilst there is legislative risk from the looming Henry tax review, we consider this risk is more than adequately reflected in the current multiple.

Biota Holdings (BTA): Viral resistance has developed against Relenza's only competitor, Tamiflu in the most recent northern flu season. This is a significant structural event for Biota's only product on the market. Viral resistance will force governments to reweight Relenza to 50% of global stockpiles or face substantial political backlash. Biota's next generation product LANI also performed creditably in direct phase III comparisons vs Tamiflu in Japan. This will help initiate and ensure long term sales to the consumer market in the second largest flu therapeutic market in then world.

Major Stock Disposals

Ramsay Healthcare (RHC): We exited our position in RHC during the quarter as our nearer term price objectives were met. We also had increasing concerns around the potential impact of government regulation upon Ramsay's Australian operations and potential funding constraints to the powerful, but vulnerable, NHS with the cash strapped UK government looking closely at currently ballooning health expenditure.

Karoon Gas (KAR): We sold out of our modest overweight position in KAR during the latter part of the quarter as it became apparent that the Kontiki-1 well was going to fall well short of expectations. Following the earlier Poseidon discovery in the Browse Basin the company was significantly de risked and subsequently re rated, with all eyes turning to the potential for equally significant discoveries within the Kontiki-1 and Grace fields. The failure and abandonment of Kontiki-1 would appear to now significantly cap the overall potential for KAR and altered the risk/reward sufficiently for us to exit our position.

Equinox Minerals (EQN): We reweighted to other copper exposures due to potential for market disappointment as far as production and consequent cash costs at Lumwana. Our concern is not

FY09, which has been consistently downgraded by the market and management from 170kt to 110kt currently, but FY10. The market continues to assume a strong recovery / ramp up.

Felix Resources (FLX): Following the announcement of the recommended cash bid for the company by Chinese state owned Yanzhou Coal Mining during August we exited our position into resultant price strength on market and redeployed the proceeds.

Number of stock holdings at 30 September:	53

Fairview Equity Partners Pty Ltd Level 4, 141 Flinders Lane Melbourne VIC 3000

Phone: 03 9929 9441 I Fax: 03 9650 6199 I AFSL 329052 I www.fairviewequity.com.au