

## February 2010 Retail 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

<i>Period ending 28 February 2010</i>	1 mth	3 mths	12 mths	Since inception #
Fairview Emerging Companies Fund *	0.57%	-3.02%	68.20%	23.94%
S&P/ASX Small Ordinaries Accumulation Index	-0.48%	-3.92%	63.05%	10.99%
<b>Net Excess Return</b>	<b>1.05%</b>	<b>0.90%</b>	<b>5.15%</b>	<b>12.95%</b>

\* Returns shown are net of fees (including management and performance fees) but before tax  
 # Annualised. Fund inception 8 October 2008

The S&P/ASX Small Ordinaries Accumulation Index declined a further 0.5% during the month of February, with the decline for calendar 2010 to date 7.9%. The Fairview Equity Partners Emerging Companies Fund outperformed this benchmark during February, with a net return of 0.6%.

### Market Outlook

Whilst at a broader level the market appeared pre occupied with macro issues such as the sovereign debt situation of certain of our European neighbours, at a more micro level the interim reporting season has occupied the majority of our thinking over recent weeks.

Overall, results came in slightly better than expected with positive surprises outnumbering their opposites by a factor of almost two to one. This is not to say that the results were stellar in absolute terms, with the full effects of the economic slowdown certainly driving negative growth across many companies. However, on a sequential basis the vast majority of companies in our investible universe reported positive growth, in some cases sizeable, highlighting that we are at the bottom of the current earnings cycle with profit growth likely to accelerate into fiscal 2011. The better results were highlighted by reductions in operating costs, whilst a renewed focus upon capex and working capital drove some strong cashflow results. In terms of outlook comments, whilst in some cases mixed they were broadly more encouraging and seemingly made with more visibility than was the case 3-6 months ago.

We would argue that the cost containment evidenced during the downturn will only enhance the operating leverage potential as the revenue environment improves. Combined with balance sheets which have been significantly strengthened by capital raising activities over the past 12 months most companies are well placed for accelerated earnings growth over the next 12-18 months. Market expectations for 15-20% EPS growth for fiscal 2011 were broadly confirmed through the reporting season. With balance sheets strong, earnings growth set to accelerate, and with valuations well below historical averages on a 2011 basis, we see the broader outlook for share price gains as encouraging.

## Portfolio Strategy

There have not been any material changes to the composition of the fund over the last couple of months. January and December as per normal were quiet months in terms of corporate news flow and we have only made some modest changes during the recent reporting season as new information came to hand.

The fund remains overweight many domestic cyclical sectors such as media, consumer, retail, financials and IT services. Additionally we retain several positions exposed to more global dynamics especially in energy related resource companies. These include some large coal positions and our preferred oil and gas companies. Almost half of the small cap index comprises resources and soft commodity exposures and we are currently similarly positioned in the fund. Key under-weights include property (no exposure), infrastructure and healthcare.

## Performance Attribution

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

Positive contributors		Negative contributors	
Medusa Mining	Overweight	Probiotec	Overweight
Gunns	Nil Weighting	Oakton	Overweight
Silver Chef	Overweight	Arrow Energy	Overweight
REA Group	Overweight	Ten Network	Nil Weighting
DKN Financial	Overweight	Ramsay Healthcare	Nil Weighting

## Number of stock holdings at 28 February 2010:

51

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