

## January 2010 Institutional 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

Period ending 31 January 2010	1 mth	3 mths	12 mths	Since inception #
Fairview Emerging Companies Fund *	-7.42%	1.54%	67.00%	29.49%
S&P/ASX Small Ordinaries Accumulation Index	-7.43%	-1.75%	52.85%	12.08%
<b>Excess Return *</b>	<b>0.01%</b>	<b>3.29%</b>	<b>14.15%</b>	<b>17.41%</b>

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

# Annualised. Fund inception 8 October 2008

Following a 57% gain for the S&P/ASX Small Ordinaries Accumulation Index through the course of 2009, the year started in more cautious fashion with a 7.4% decline during January. Small resources took the brunt of the fall with the sector down 11.1% as commodity prices reacted sharply to a potential shift in Chinese macro policy and a firmer US dollar. Our Fund performed broadly in line with this market decline and continues to outperform strongly since inception.

### Market Outlook

Market attention is currently very much focussed upon the interim reporting season, with delivery relative to expectations likely to drive share prices over the next month or so. We are reasonably positive in this regard and cite the following supportive dynamics:

- Firstly the stronger currency is a substantial positive to the margins of a significant number of consumer stocks who source their inventories off shore. This represents a major improvement from the currency driven downgrades of a year ago. Companies such as McPherson's and Super Cheap Auto have a considerably reduced cost base, particularly as hedging rolls off.
- Secondly, the rebound in commodity prices and volumes will provide resource companies with a significant boost to earnings. This is also starting to feed down to mining services companies with more mining projects now coming on stream providing workflow to engineers and contractors.
- Thirdly the strength of the domestic economy, particularly from the consumer, should ensure strong results for retailers and other consumer based industries including travel and leisure. There have already been some very positive updates from travel companies such as Flight Centre and Webjet.

Pleasingly there have only been a modest number of negative pre-reporting season updates. This suggests that most of the bad news stories are already out there and that the majority of companies yet to report are unlikely to materially disappoint.

It will again be important to correctly identify and differentiate the extent to which a company is being influenced by structural dynamics and/or cyclical trading conditions, as one of these is far more likely to shift positively over the coming 12-18 months than the other.

Provided the upcoming reporting season progresses largely without (unexpected) incident, then from current levels there are reasons to be positive on the prospect for solid market gains. Whilst at Fairview we are intent on exploiting individual opportunities, at a broader level the market continues to trade at below historical levels on nearer term estimates, and at an even greater discount upon normalised or mid cycle earnings.

## Portfolio Strategy

There have not been any material changes to the composition of the fund over the last couple of months. January as per normal was a quiet month in terms of corporate news flow and we await the advent of the upcoming reporting season to assess the suitability of potential investment changes. The only modest reduction we have made recently is to ease back our discretionary retail overweight given the out-performance of that sector and the prospect of more subdued consumer spending after very strong retail sales throughout most of 2009.

## Performance Attribution

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

Positive contributors		Negative contributors	
Webjet	Overweight	McMillan Shakespeare	Overweight
Karoon Gas	Nil Weighting	McPhersons	Overweight
Oakton	Overweight	Medusa Mining	Overweight
Mitchell Communications	Overweight	Aquila Resources	Overweight
Retail Food Group	Overweight	Forge Group	Overweight

## Number of stock holdings at 31 January:

49

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