

## May 2009 Investment Report

### Fairview Equity Partners – Emerging Companies Fund

Fairview Equity Partners is a new 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>Inception date 8 October 2008</i>	May-09	3 mths	Since inception
Fairview Equity Partners Emerging Companies Fund *	9.28%	23.56%	2.41%
S&P/ASX Small Ordinaries Accumulation Index	7.45%	34.43%	-4.68%
<b>Excess Return</b>	<b>1.83%</b>	<b>-10.87%</b>	<b>7.09%</b>

\* Returns shown are gross (pre fees)

The S&P/ASX Small Ordinaries Accumulation Index continued its upward trajectory, rising a further 7.5% during the month of May. Calendar year to date the benchmark is up 19.6% and indeed an even more impressive 43.7% from its recent March 2009 lows. The Fairview Equity Partners Emerging Companies Fund solidly outperformed during this latest month and has strongly outperformed its benchmark since inception.

As was the case during March and April, May saw strong relative out performance from the more cyclical sectors and in particular from resources. Fairview benefited from its overweight copper and energy positions and there was also some strong performance from some of our preferred industrial names that have begun to be re-rated.

Our core approach ensures that major style biases are constrained and that we are highly focussed on providing excess returns in all market conditions. Accordingly we typically only need to make modest adjustments to key portfolio tilts as sector outlooks change. In recent periods we have tended to favour more cyclical names due to a plethora of very attractive valuations more generally available in this space. It is pleasing to see this approach being reflected in Fairview's May performance, and it is also pleasing that our policy of avoiding "defensive / expensive" companies has also been rewarded in recent months given the generally substantial underperformance from such names.

Moving forward we are firmly of the view that there are an unprecedented number of highly attractive smaller company investment opportunities that have been provided by the substantial rout in equity markets over the last year. Conditions are also likely to become more suitable for astute stock selection as recent and fairly violent thematic swings begin to moderate. The portfolio contains many positions that should benefit as conditions improve as well as several attractively priced companies that are at large discounts to our valuations.

### Market Commentary

At a broad level market conditions have certainly improved in recent months, however it is perhaps worth highlighting the disparity in returns for the small cap segment end of the market relative to their larger cap peers. Calendar year to date the S&P/ASX Small Ordinaries Index has risen approximately 20% (+44% from March lows) relative to a 4% rise for the S&P/ASX 100 Index. Over this same period the small resources subset has risen by approximately 48% year to date relative to a corresponding 8% rise for their small industrial peers (S&P/ASX 100 Industrials -1%).

Thanks for the backward looking update you might say, but what does this tell us moving forward?

- Firstly, more pronounced inefficiencies arose within the more discretionary small cap market during the market correction phase, with less discriminate selling exacerbated by liquidity contraction and in some cases margin lending related pressures, research coverage and

information flow further reduced, and earnings estimates unilaterally slashed by increasingly cautious analysts. Several of these remain in place today, creating outstanding opportunities;

- Secondly, the cyclical / defensive composition of the two groups will continue to see small industrials much more leveraged to the economic cycle than large caps, which are dominated by large defensives with limited operational leverage; and
- Finally, the small resources subset is highly leveraged to improvements in commodity prices and economic recovery more generally. Comprising approximately 40% of S&P/ASX Small Ordinaries Index, failure to capture this segment is likely to impede the ability to outperform.

Despite the strong recent performance of the small cap segment we remain positive on the outlook. Earnings expectations have been for the most part tempered appropriately and valuation multiples continue to be supportive. Economic conditions appear to be stabilising whilst the extent of fiscal and monetary stimulus supports the potential for an earlier than expected improvement in the economy. Finally, through our ongoing company visitation program we continue to be encouraged by the subtle shift in management demeanour and expectation.

## Performance Attribution

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

Positive contributors		Negative contributors	
Equinox	Overweight	Riversdale Mining	Not Held
Aditya Birla	Overweight	Mitchell Communications	Overweight
SP AusNet	Not Held	Dominion	Overweight
Tassal	Overweight	Independence Group	Overweight
Carnarvon Petroleum	Overweight	Murchison Metals	Not Held

## Number of stock holdings at 30 April:

55

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