

January 2009 Monthly 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>	Jan 09	3 mths	Since inception
Fairview Equity Partners Emerging Companies Fund *	-2.33%	-4.54%	-15.91%
S&P/ASX Small Ordinaries Accumulation Index	-4.65%	-10.23%	-24.00%
Excess Return	2.32%	5.69%	8.09%

* Returns shown are gross (pre fees)

The S&P/ASX Small Ordinaries Accumulation Index declined 4.65% during the month of January, giving back all of the gains seen in December. The Fairview Equity Partners Emerging Companies Fund outperformed this benchmark, declining by a lesser 2.33% for the month of January.

Market Review

The year commenced with similar degrees of volatility as marked the close of the previous, with the S&P/ASX Small Companies Accumulation Index trading within a 12% range during the month, before closing only modestly above its lows.

Equity markets started the month in a positive mode as they anticipated global stimulus packages and the potential economic boost that would follow. However this optimism rapidly faded as a series of negative global economic data points were reported. Concern was also reignited on the health of financial stocks given the potential for further government rescue packages being required for their distressed balance sheets. Finally, initial corporate earnings began filtering through towards the end of the month and both global and domestic earnings have been below expectations to date.

Translating this into domestic smaller companies we highlight that the small cap sector has some key differences to the large cap sector that may provide for some reasonable relative out-performance. Firstly the banks and financials are largely absent from the small cap sector and these stocks have major balance sheet challenges as evidenced by substantial capital raisings in recent months. Secondly by virtue of their size, debt levels tend to be smaller in absolute terms and less subject to large syndications involving offshore banks that are potentially exiting the Australian market. Indeed many smaller companies just have the one banking relationship and already we have seen many re-finance without too much difficulty. In fact what we are probably seeing is a return to more normal credit conditions, where good businesses with appropriate debt levels are generally well supported by lenders, as opposed to the looser credit conditions in recent years where standards had lapsed.

Performance Attribution

Positive contributors	Mthly return	Position
Duet	22.5%	Overweight
Challenger Financial Group	-38.0%	Nil Holding
Independence Group	15.3%	Overweight
SAI Global	8.9%	Overweight
Equinox	20.0%	Overweight

Overweight positions continued to dominate the positive contributors to relative performance during January, whilst the spread of names continues to reinforce the conscious efforts toward achieving consistent performance from a well diversified portfolio.

Duet (DUE): DUE continued to recover from having been excessively sold off in the prior month or so on concerns that it would be required to raise equity to fund its Dampier to Bunbury Pipeline expansion. With the company having later refuted this claim, whilst also reiterating its guidance for a 28.25¢ distribution for F.09, by January end the stock had subsequently risen 37% from its late December lows. Despite this, it continues to trade on a prospective yield of more than 13%.

Challenger Financial Group (CGF): Challenger more than retraced the gains of the prior month. Whilst the company made no specific announcements, a number of analysts heavily downgraded estimates to reflect continued negative market effects across its various businesses. In our view, each of its asset management, funds management, and mortgage businesses continue to face significant headwinds.

Independence Group (IGO): IGO once again featured strongly as a relative contributor during January. As an Australian based low cash cost producer with a net cash position, Independence Group remains a preferred nickel exposure. Having said that, it was in fact its 30% ownership of the Tropicana Gold project (rising gold price, announced increase in resource estimate) which drove increased interest in the stock during the month.

SAI Global (SAI): During the month SAI issued a trading update to the market, highlighting that a continued solid demand for its products and services has seen all of its divisions continue to perform in line or ahead of budget. Guidance was provided for the 6 months to December, whilst full year guidance previously provided at the AGM was reiterated to the market.

Equinox Minerals (EQN): Issued a business update in early January that allayed investor concerns relating to Lumwana mill start up, with first production exceeding market expectations. The company also disclosed that Glencore had rejected a concentrate shipment, citing Lumwana concentrate quality concerns. Speculation that this was a ploy to assist a Glencore related party (First Quantum) to increase its already substantial stake in Equinox also buoyed the stock.

Negative Contributors	Mthly return	Position
Resmed	15.7%	Nil Holding
Arrow Energy	-20.5%	Overweight
Sigma Pharmaceuticals	11.1%	Nil Holding
Wotif	-13.0%	Overweight
Singtel	6.9%	Nil Holding

Resmed (RMD): Rallied strongly in January on the back of broker reports that mask and generator price discounting had eased and new product launches in the quarter had been well received by the market. The stock was also assisted by the considerable drop in the Australian dollar versus the greenback during the month.

Arrow Energy (AOE): Having risen by approximately 28% during the prior month as corporate activity within the coal seam gas space (AGL agreed takeover of Sydney Gas) continued to highlight the attractions of this resource, the stock gave back a significant part of those gains. Other than the upcoming profit release and associated data the next likely newsflow for the stock is likely to be with respect to an offtake agreement for the proposed LNG project.

Sigma Pharmaceuticals (SIP): Sigma performed solidly during the month. This is despite some prospect of SIP coming in at the lower end of market expectations for its upcoming full year result (year end January 31) and pharmacist feedback suggesting recommencement of aggressive generic product discounting within the market.

Wotif.com (WTF): Whilst deteriorating broader macro economic conditions have raised market concerns regarding stocks exposed to discretionary expenditure (including travel) the underperformance of WTF in January more reflects some profit taking following a strong December quarter in which the WTF share price outperformed the S&P/ASX Small Ordinaries Index by 29%. Indeed, from an operational perspective we note that the company issued a positive trading update in the early part of February.

Singapore Telecommunications (SGT): SGT continued its strong recent relative performance into the new year. There has been no material company specific newsflow of late, with performance seemingly more reflective of the arguably defensive characteristics of telecommunications within a deteriorating economic environment. We note that with respect to its domestic operations (circa 30% of earnings) Telstra continues to strengthen its lead, whilst the most recently announced tie up between third and fourth ranked mobile players (Hutchison and Vodafone) will intensify competitive pressures.

Number of stock holdings at 31 January:
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