

Fairview Equity Partners Monthly Investment Report February 2013

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 28 February 2013	1 Month	3 Months	1 Year	3 Years p.a.	Since inception [#]
Fairview Emerging Companies Fund*	3.51%	11.49%	19.34%	19.51%	22.30%
S&P/ASX Small Ordinaries Accumulation Index	0.87%	8.50%	-2.40%	2.60%	5.18%
Excess Return*	2.64%	2.99%	21.74%	16.91%	17.12%
Net Fund Return (after fees & expenses)	3.23%	10.64%	13.72%	15.09%	17.85%

* Returns shown are gross at a manager level (pre fees) # Annualised. Fund inception 8 October 2008
Past performance is not a reliable indicator of the future performance.

During February, the benchmark Small Ordinaries Accumulation Index rose 0.87%. The Fund performed substantially better than this returning 3.51% gross and 3.23% net, well and truly offsetting the January under-performance.

Portfolio Strategy

Reporting season on aggregate saw results reported largely in line with expectations and there continues to be little evidence of a material pick-up in activity in the more cyclical sectors. Mining services were a mixed bag but there was clear commentary that the investment and construction spending has either peaked or is about to.

Investment fundamentals for the Small Industrial segment of the smaller companies universe are now somewhat 'stretched' given a 12 months forward PER of 15x. This represents a 10% premium to the average of 13.7x over the past 15 years, noting a 15% increase in the Small Industrials index over the past year that was entirely PER expansion rather than EPS driven – our view is that a 'step up' in EPS growth is now required to be demonstrated to drive further sustainable upside.

Market Outlook

Although industrials generally are now lacking obvious valuation support, this is mitigated by improving economic conditions, historically low interest rates and a reduction in the previously elevated levels of risk aversion.

A potential area of support for the smaller companies universe could come from the resources sector which has under-performed the smaller industrials by around 50% over the last year. Apart from the

gold and coal sectors, commodity prices have staged a reasonable recovery in recent months and that should lead to improved share price performance from the related mining companies at some stage.

Regardless of the above valuation issues, we continue to look for mispriced opportunities and are presently considering many potential investments to add to the fund.

Performance Attribution

We highlight below the largest positive and negative relative performance contributors during the month of February 2013.

Positive contributors		Negative contributors	
REA Group Ltd.	Overweight	Regis Resources Ltd.	Overweight
Codan Ltd.	Overweight	Beadell Resources Ltd.	Overweight
McMillan Shakespeare Ltd.	Overweight	Breville Group Ltd.	Overweight
Ainsworth Game Technology Ltd.	Overweight	JB Hi-Fi Ltd.	Not Held
G8 Education Ltd.	Overweight	Papillon Resources Ltd.	Overweight

Number of stock holdings at 28 February 2013:	50
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