

April 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>	Apr-09	3 mths	Since inception
Fairview Equity Partners Emerging Companies Fund *	7.66%	11.43%	-6.29%
S&P/ASX Small Ordinaries Accumulation Index	13.52%	16.72%	-11.29%
Excess Return	-5.86%	-5.29%	5.00%

* Returns shown are gross (pre fees)

The S&P/ASX Small Ordinaries Accumulation Index rose an exceptional 13.5% during the month of April, bringing the movement for the calendar year to date to 11.3%. Whilst the fund has underperformed this most recent rally, the Fairview Equity Partners Emerging Companies Fund has solidly outperformed its benchmark since inception.

The fund lagged the benchmark's rise primarily due to the exceptional performance from many stocks that have become fairly speculative in nature mainly due to severely weakened balance sheets. Although we appreciate the potential upside from companies that can repair their balance sheets, the extreme levels of uncertainty regarding such a process makes most of these stocks very speculative. There are still plenty of corporate failures occurring in what remain challenging funding conditions as evidenced by the recent Timbercorp and Albidon examples. Our process remains focussed on avoiding speculative investments, regardless of the short term performance impacts that may result when such stocks are rallying hard.

The other key factor was the subdued performance from some of our preferred cyclical exposures. This was both surprising and frustrating given the strong performance generally from the more cyclical names. This however does not overly concern us as many of our cyclical positions had been very solid performers in previous months when cyclical sectors had generally struggled, as well as providing the leverage we seek at other periods when the market has performed strongly. Essentially stock selection was not as strong as it had been previously, but importantly we are confident that the overall balance in the portfolio is sound. We continue to stay focussed on having a high quality portfolio that consistently provides for out-performance in the majority of market conditions and time frames.

Performance Attribution

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

Positive contributors		Negative contributors	
Independence Group	Overweight	Dominion Mining	Overweight
Beach Petroleum	Not Held	Australian Infrastructure Fund	Overweight
Healthscope Limited	Not Held	Iluka Resources	Overweight
Mitchell Communications	Overweight	St. Barbara Ltd	Overweight
Felix Resources	Overweight	Karooon Gas	Not Held

Market Commentary

We remain positive on the outlook for equity markets and believe the fund is well positioned to capitalise on a stronger market. We continue to maintain a mixture of attractively priced stocks that have strong fundamentals and solid growth prospects somewhat independent of economic conditions, as well as selectively adding to our exposure to sectors that are better placed to more directly benefit from economic recovery.

Following an extensive program of company visitations we have observed some encouraging early signs of improvement in certain cyclical sectors. We see the strongest upside in domestic residential housing and resource stocks exposed to our preferred commodities. We strongly favour those services companies that are leveraged to stabilising commodity volumes whilst remaining under weight those exposed to a still declining mining capex cycle. Reflective of the fact that equity markets typically lead economic indicators, we have grown increasingly positive toward selective exposures which are leveraged to improved financial markets. Finally, at a broader level we continue to build positions in high quality, strongly managed companies that remain substantially undervalued given the broad based and somewhat indiscriminate de-rating in small cap markets over the past 12-18 months.

Number of stock holdings at 30 April:

53

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