

Fairview Equity Partners Monthly Investment Report October 2011

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 31 October 2011	1 Month	3 Months	1 Year	3 Years #	Since inception #
Fairview Emerging Companies Fund*	8.91	-7.00	-0.42	26.61	20.88
S&P/ASX Small Ordinaries Accumulation Index	7.87	-6.16	-8.22	12.64	6.41
Excess Return*	1.04	-0.84	7.80	13.97	14.47
Net Fund Return (after fees & expenses)	8.82	-7.08	-3.16	22.79	17.02

*Returns shown are gross at a manager level (pre fees)
Annualised. Fund inception 8 October 2008

The Small Ordinaries Accumulation Index performed very strongly during the month of October with a return of 7.9% and the fund delivered a further 1% of out-performance on top of that. Mining related sectors were the key contributors to performance during the month.

Market Outlook

It has been our long held view that the resources sector provides the most compelling opportunities for investors should macro economic conditions stabilise and equity markets begin to re-rate. This certainly remains our view as we discuss in greater detail below.

We have been fairly positive for quite some time on the resources outlook even with recent weak share price performance due to the obvious Asian/Chinese industrialisation trends and supportive valuations. However the sharp drop in the iron ore price and continuing ructions in Europe have caused us to re-visit our structures and undertake further analysis including a very insightful trip to China. Our conclusions are as follows.

There is no evidence of a major property glut in China with only pockets of overbuilding in certain higher demographic apartments in some of the larger cities. There remains a substantial demand in building required in social housing for the large amount of migrating rural workers who require accommodation. There are also substantial amounts of infrastructure works required in transport, telecommunications and energy distribution. Accordingly the demand for steel and thus iron ore remains fairly solid as has been evidenced by stable volumes in recent periods.

The reason for the weakness in the iron ore price has been due to de-stocking by Chinese steel mills who are hoping to achieve better prices when they re-stock as well as weak European demand causing

additional volumes to be directed to Asian markets. There is no pending collapse in Chinese demand even if their export markets weaken due to strong domestic requirements. With the iron price now down near marginal production costs, a decent rebound can be expected shortly.

Other key insights are strong micro indicators around demand for equipment and building materials as well as tight labour markets. These sorts of indicators are more reliable than the more spurious high level macro statistics. The Government is also likely to consider a less restrictive lending environment going forward which will further stimulate growth. Finally the outlook for thermal coal is extremely compelling given the likelihood that China will double thermal coal consumption over the next five years (over already elevated levels). It is difficult to envisage where this supply will come from which suggests a strong pricing environment for this commodity.

In summary, we maintain our positive view although cognisant that a more definitive resolution on the European problems are necessary for sustained equity market performance. We remain negative and under-weight domestic cyclicals where the environment continues to be weak. We will continue to await tangible evidence of a pick up in the non-mining domestic economy before contemplating investments in this space. Finally our process and disciplines continue to ensure that IPO debacles like Collins Foods do not make their way into the fund.

Performance Attribution

We highlight below the largest positive and negative relative performance contributors during the month of October 2011.

Positive contributors		Negative contributors	
Aurora Oil And Gas	Overweight	Super Retail Group	Overweight
Fletcher Building	Not Held	Karoon Gas Australia	Not Held
Texon Petroleum	Overweight	SAI Global	Overweight
Regis Resources	Overweight	Mastermyne Group	Overweight
Flight Centre	Overweight	Western Areas N.L.	Not Held

Number of stock holdings at 31 October 2011:	50
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Contacts

Fairview Equity Partners Pty Ltd
 Level 4, 141 Flinders Lane, Melbourne VIC 3000
 Phone: 03 9929 9441 Fax: 03 9650 6199
www.fairviewequity.com.au AFSL 329052



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