CANNAE
Capital Partners

Monthly – Cannae Australian Share Fund

October 2009

Performance Summary

	1 month	3 months	6 months	12 months	Inception annualised
Portfolio[1]	-0.9%	12.6%	26.8%	27.7%	-0.2%
Benchmark[2]	-2.1%	11.0%	25.6%	22.0%	-3.9%
Performance	+1.2%	+1.6%	+1.2%	+ 5.7%	+ 3.7%

Month Summary

The portfolio returned -0.9% for the month of October 2009. This outperformed the benchmark S&P/ASX 300 Accumulation Index, which returned -2.1% for the month.

October proved to be a volatile month, with the market reaching a new 12 month high to be up +2.5% mid-month, before ending the month in negative territory. Risk aversion returned to the market on concerns that a strong economic recovery may be more than factored into share prices. In particular, the market appears to be recognising that many companies will find 2010 challenging as the economy cycles higher interest rates and fiscal stimulus. Hence defensive sectors returned into favour with Consumer Staples, Utilities and Telecommunications among the top performing sectors, while REITs, Energy and Financials lagged.

Portfolio Activity

We continued to reduce exposure to cyclicals, which have become expensive, in favour of more attractively priced defensives. Positions in Amalgamated Holdings, Austbrokers and Goodman Fielder were increased. These additions were funded by reducing exposure to Fairfax, Fletcher Building and STW Communications, while the small position in Abacus was completely exited.

Exposure to financials remains low, with the portfolio's risk parameters ensuring that positions in each of the major banks must be held. However, the portfolio is substantially underweight the four major banks. We believe that the major banks are expensive, trading on similar multiples to the market when they have historically traded at a 20-30% discount. The presentation of year end results for ANZ and National Australia Bank during October did little to change our view as these banks relied on lower quality items such as trading profits and repricing their loan books to meet earnings expectations. These revenue streams tend to be volatile and non-recurring in nature and therefore should be valued on a low multiple. Organic revenue growth was largely absent, as both banks shrunk their loan books. This is symptomatic of meagre credit growth that is showing few signs of returning to double digit growth that the banks' share prices would imply. Outlook comments were cautious with scant evidence of a new paradigm for Australian banking (as implied by many market commentators and bank analysts) that would warrant the hefty valuations and expectations placed on the major banks by the market.

Stock Performance

The volatility during the month tended to impact smaller stocks more heavily than their large cap counterparts as many holdings recorded large swings in the absence of any stock specific news. The top performers for the month were smaller stocks with defensive characteristics, including Amalgamated Holdings (+19.4%), Pacific Brands (+10.4%), Transfield Services Infrastructure (+4.8%) and Metcash (+4.4%). The underperformers were predominantly smaller stocks with more cyclical earnings including Fleetwood (-13.5%), Lend Lease (-11.5%) and Regional Express (-8.2%).

[1] Source: RBC Dexia Investor Services

[2] Benchmark: S&P/ASX 300 Accumulation Index