

Performance Summary (total returns after fees)

	1 month	3 months	6 months	Inception
Portfolio ¹	+6.6%	+9.3%	+0.7%	-21.3%
Benchmark ²	+5.7%	+9.0%	-2.9%	-24.5%
Performance	+0.9%	+0.3%	+3.6%	+3.2%

Month Summary

The portfolio returned 6.6% for the month of April 2009. This outperformed the benchmark S&P/ASX 300 Accumulation Index, which returned 5.7% for the month.

Sentiment towards equities continued to improve during the April as the market consolidated the strong gains from March. Investors continued to absorb poor news flow as profit warnings increased into the seasonally high April/May period while economic data flow remained weak. The rafts of discounted equity issues continued as companies remain highly conscious of deleveraging balance sheets ahead of debt refinancing.

Investor focus shifted towards 'bank' interim reporting season with NAB and ANZ releasing just prior to month end. An increase in bad debt provisions appeared to surprise the market on the downside as

investors sold down bank stocks following these results. We have been underweight the banking sector for some time and believe the share prices of the 'Big Four' banks have been somewhat dislocated from other sectors. While many industrial stock prices have reflected the likelihood of a prolonged recessionary environment since the early stages of the current bear market, bank stocks have been priced for a very mild downturn. This has been premised on management comments that highlighted the strength of the domestic economy, strong capital adequacy, sound domestic lending practices and superior risk management relative to the rest of the world. There has been an overriding belief that these factors would insulate Australian banks from the global downturn and credit crisis, yet signs are emerging that these factors have merely delayed the inevitable rather than preventing it. Hence we were not surprised by the higher than expected debt provisioning and subsequent share price

pullbacks following the sector's strong rally since the market lows in March.

The Consumer Discretionary and Industrial sectors outperformed during the month as investors sought out of favour, high beta cyclicals in anticipation of a market recovery. Consumer Staples also outperformed, propelled by the bids for Lion Nathan and ABB Grain, as well as continued faith that Wesfarmers can narrow the gap between its subsidiary, Coles, and Woolworths. Defensive sectors such as Healthcare continued to lag, as did Financials and IT stocks as investors took profits after these two sectors ran strongly during the previous month.

The outperformance for the month is pleasing in the context of our relatively defensive positioning and focus on high quality stocks. What has also been pleasing is the performance of a number of our cyclical holdings as the market begins to recognise the quality of these companies, notwithstanding the economic headwinds they currently face.

Portfolio Activity

Some stock specific weakness early in the month enabled positions in Pacific Brands and Ramsay to be increased at attractive prices. The rapid ascent of the Pacific Brands share price resulted in the position being prudently trimmed. The holding in Fleetwood was also trimmed after strong increase in its share price. The portfolio participated in capital raisings by Abacus, Fletcher Building, OneSteel and STW Communications. These presented good opportunities to increase our holdings in high conviction investments at attractive prices. At the time of writing, these capital raisings have been profitable for investors, while improving the financial strength of these companies.

A small position was established in AXA. This followed its capital raising in March that alleviated concerns over the company's level

of capital adequacy. The company currently has excess capital and looks set to benefit from the recent equity market turnaround. AXA has a strong, geographically diverse franchise and is attractively priced relative to its main listed competitor, AMP.

Stock Performance

The top performers for the month tended to be 'high beta' mid and small caps that had been out of favour prior to the market rallying in early March. Immediately before the recent rally, many had been oversold to irrational levels. These included Pacific Brands (+185.7%), Transfield Services Infrastructure (+22.5%) and Gunns (+22.2%).

Pacific Brands (+185.7%) rose sharply during the month as the market began to recognise that its shares were significantly undervalued. There were also several positive news items. Early in the month, the company announced that it extended the maturity of two debt tranches by 4 and 19 months respectively. Later in the month, in response to a share price enquiry, the company provided guidance that FY09 EBIT (pre restructuring costs) will not vary by more than 15% compared to the prior year.

Transfield Services Infrastructure (+22.5%) increased on no stock specific news. However, with the stock trading on a prospective normalised yield of over 16% at the start of the month, the strong performance acknowledges that the share price was simply too low for the stock's highly predictable earnings stream. Gunns (+22.2%) rose as negotiations with a joint venture partner for its pulp mill project progressed significantly.

The main underperformers were defensive holdings, including Ramsay (-6.1%) and Ansell (-2.1%), as well as banks, such as Suncorp (-1.7%).

Ramsay (-6.1%) fell amidst speculation that the Federal Government will means test the

30% private health insurance rebate. This would restrict the eligibility for the rebate among high income earners although whether this significantly impacts Ramsay is debatable.

Ansell (-2.1%) and Suncorp (-1.7%) fell on very little stock specific news. Ansell suffered from aversion to defensives as investors sought riskier holdings, while Suncorp was sold down late in the month as the market punished financials with higher risk banking operations.

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Investors should be aware that past performance is not indicative of future performance. Returns can be volatile, reflecting rises and falls in the value of underlying investments.

¹Source: RBC Dexia Investor Services

²Benchmark: S&P/ASX 300 Accumulation Index