

Performance Summary

	1 month	3 months	6 months	12 months	Inception annualised
Portfolio ¹	6.3%	17.1%	38.2%	-6.5%	-5.0%
Benchmark ²	6.6%	19.0%	37.9%	-8.0%	-7.6%
Performance	-0.3%	-1.9%	+0.3%	+1.5%	+2.6%

Month Summary

The portfolio returned 6.3% for the month of August 2009. This underperformed the benchmark S&P/ASX 300 Accumulation Index, which returned 6.6% for the month.

August marked the sixth month in a row of positive returns from the Australian equity market, which has now rallied 42% from its March low. Despite the high volume of company data released during the August reporting season, the market continues to be driven by lower risk aversion with investors seeking leverage to an economic recovery rather than focusing too heavily on stock-specific information. Hence REITs, Financials and Industrials were the best performing sectors, while defensives such as Telecommunications, Utilities and Consumer Staples underperformed. Materials also underperformed as investors took profits on the large diversified miners following some strong performance in

previous months. Indicative of the extreme levels of positive sentiment at present, most market commentators lauded corporate earnings and economic indicators that marginally beat expectations. The reality is that the data was simply less negative than forecast and usually poor in absolute terms.

Recently the portfolio has been hurt relative to the market index by our significant underweight in the banks. This is an almost heretical view as most managers view the banks favourably. The arguments in favour of the sector are well known and frequently enunciated by the growing chorus of supporters. If anything, such widespread complacency towards inherently risky businesses reinforces the vulnerability of their share prices. It appears to us that the market views the economy in which the banks are forecast to be operating as a different, stronger economy than the environment in which most other businesses seem to be trading.

Portfolio Activity

The portfolio participated in attractively priced capital raisings by Ramsay Healthcare and Bank of Queensland. The latter is a new holding in the portfolio. In our view Bank of Queensland is the safest of the listed banks with the highest tier 1 capital ratio, no exposure to large corporates and a high proportion of low risk retail customers. Some of the issues that had plagued it during the global financial crisis, such as a falling net interest margin, expensive funding and growing competition for deposits appear to have stabilised or improved. The company trades at substantially lower multiples compared to the big four banks and we believe the placement price marked an attractive entry point into the stock.

A position in Ansell was re-initiated following its 2009 full year result. We took profits on Ansell last month as it appeared fully valued notwithstanding its strong cashflow generation, predominantly defensive earnings stream and lower input cost benefits. However, at the result management highlighted that the rate of manufacturing decline has eased substantially and announced that major cost restructuring is expected to significantly underpin earnings in the 2011 financial year, largely irrespective of the pace of economic recovery. Hence the stock once again looks attractive from an earnings perspective while remaining a very high quality business.

The strong appreciation in the share prices of Fairfax and Lend Lease pushed them to levels where we deemed it prudent to trim these positions.

Stock Performance

The top performers for the month tended to be undervalued small and mid cap stocks whose quality and cheap share prices are becoming increasingly apparent, particularly post reporting their full year results. These included Regional Express (+28.6%) after announcing the successful tender for a state medical contract and reasonable full year

results. Downer EDI (+26.0%) posted a strong result ahead of consensus and provided a positive outlook for next year. Amalgamated Holdings (+24.9%) delivered a solid full year result on the back of a strong performance from its counter-cyclical cinema business.

As highlighted above, there were few significant underperformers during the month, with the portfolio's relatively defensive positioning and bank underweights being the main performance detractors. The main underperformers for the month tended to be larger or defensive stocks that disappointed the market at their result. Pacific Brands (-6.3%) fell following a blow out in costs associated with its transformation programme and weak FX hedging profile leading into 2010. Telstra (-3.7%) downgraded guidance for next year but was mostly hurt by the Future Fund selling a large portion of its holding.

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The product disclosure statement can be obtained by contacting Cannae or at www.cannae.com.au.

Potential investors should consider the product disclosure statement before deciding whether to invest, or continue to invest in the Fund.

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