



Monthly – Australian Share Fund

July 2009

Performance Summary

	1 month	3 months	6 months	12 months	Inception
Portfolio ¹	5.0%	12.6%	23.1%	-11.4%	-10.6%
Benchmark ²	7.3%	13.2%	23.4%	-10.3%	-13.5%
Performance	-2.3%	-0.6%	-0.3%	-1.1%	+2.9%

Month Summary

The portfolio returned 5.0% for the month of July 2009. This underperformed the benchmark S&P/ASX 300 Accumulation Index, which returned 7.3% for the month.

The market performed strongly during July extending the streak of positive monthly returns to five. Risk aversion continued to decline as investor appetite for heavily discounted equity raisings remained strong. Investor tended to favour cyclical sectors and stocks with leverage to a perceived macroeconomic recovery, both domestically and offshore. Hence, Industrial, IT, Material and Consumer Discretionary sectors outperformed strongly during July, while investors reduced their exposure to defensive sectors with Healthcare, REITs and Telecommunications lagging.

While we are displeased with the underperformance for the month, we believe

that the market is being driven by speculators chasing low quality cyclical stocks in anticipation of a 'V-shaped' economic recovery. We believe that this view is premature and premised on a few economic indicators becoming marginally less negative rather than concrete evidence that the worst is behind the economy. Our process focuses on investing in high quality stocks that are cheaply valued. This does not preclude us from holding cyclicals and indeed the portfolio outperformed the market during each of the first four months of the rally as previously out of favour high quality cyclicals such as Lend Lease, Fletcher Building, Orica, Pacific Brands, STW Communications and Fairfax were bought by investors who were attracted to their quality and cheap share prices.

Ironically, we flagged in both the March and April monthly reports that we were pleasantly surprised by the portfolio's outperformance in the context of its relatively defensive

positioning and focus on high quality stocks. In the March report, we predicted that it may be hard to sustain such outperformance in the immediate future if the rally continues, as seemed likely in the short term. This was because low quality and more speculative names tend to do well in such conditions.

However, the most recent part of the rally (i.e. July) has seen a number of low quality cyclicals (e.g. small resources, steel stocks) play 'catch up' based on the perception that they were cheap relative to other cyclicals. This of course ignores that they were cheap because they are of low quality, rather than some pricing anomaly, as market speculators, commentators and brokers would have one believe. These low quality businesses continue to face significant economic headwinds and are unlikely to make sound long term investments. We stand by our process and disciplines and believe that over the long term, the quality and value of the portfolio will enable it to outperform the broader market.

Portfolio Activity

The underperformance of defensives during the rally has resulted in a number of them becoming very attractively priced. Hence holdings in Tatts Group, Insurance Australia Group and Origin Energy were increased. We are very pleased to have been able to top up the holdings in these high quality companies at prices that we believe will make very profitable entry points over the long term.

The strong performances of many cyclical and financial stocks have significantly stretched valuations in our view. Some of the portfolio's cyclical and financial holdings were no exception, with the share prices of AXA, Ansell and Fletcher Building being pushed to levels where we deemed it prudent to trim Fletcher Building and completely exit AXA and Ansell. AXA and Ansell's share prices had risen materially

since their March lows, to the point where they appeared expensive, notwithstanding their relatively high quality. In accordance with our sell disciplines, we deemed that they were no longer attractive compared to other potential opportunities and we sold the entire holdings.

Stock Performance

Risk aversion rapidly dropped during the recent five month rally with the top performers tending to be 'high beta' mid and small caps with high operational leverage to an economic recovery. July was no exception and the top performers for the month were Pacific Brands (+39.2%), Fairfax (+20.9%) and Downer EDI (+16.1%).

The top underperformer for the month was Gunns (-10.7%) despite announcing it had been selected as the preferred provider of a second hardwood chip facility for the Port of Portland. The stock has had a strong run in recent months (to the point where we reduced the position last month) and was arguably due for a pullback at some stage, despite no negative news.

Apart from Gunns, the main underperformers were defensive holdings, including Ramsay Health Care (-9.0%) and Transfield Services Infrastructure (-5.7%). We maintain our conviction in these stocks, which we believe were indiscriminately sold down as investors chase stocks with high beta, regardless of their quality.

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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