



Monthly – Cannae High Conviction Fund

October 2009

Performance Summary

	1 month	3 months	6 months	12 months	Inception annualised
Portfolio ¹	-0.7%	12.1%	24.5%	25.6%	-3.9%
Benchmark ²	-2.1%	11.0%	25.6%	22.0%	-3.9%
Performance	+1.4%	+1.1%	-1.1%	+3.6%	0.0%

Month Summary

The portfolio returned -0.7% 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 was also reduced with Commonwealth Bank and Westpac being completely sold. The portfolio no longer holds any of 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%) and Transfield Services Infrastructure (+4.8%). The underperformers were predominantly smaller stocks with more cyclical earnings including Fleetwood (-13.5%), Lend Lease (-11.5%) and Regional Express (-8.2%).

Important Information:

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Treasury Group Investment Services Limited (TIS) AFSL 227326 is the responsible entity for the Cannae High Conviction Fund (Fund). Applications can only be made on the form in the current product disclosure statement dated 26 May 2008 for this Fund.

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