



Monthly – High Conviction Fund

February 2009

Performance Summary (total returns after fees)

	1 month	3 months	6 months	Inception
Portfolio ¹	-6.1%	-7.9%	-35.8%	-34.2%
Benchmark ²	-4.6%	-9.3%	-33.3%	-33.9%
Performance	-1.5%	+1.4%	-2.5%	-0.3%

Month Summary

The portfolio returned -6.1% for the month of February 2009. This underperformed the benchmark S&P/ASX 300 Accumulation Index, which returned -4.6% for the month.

February proved to be another negative month for equities with the market trading lower on heightened risk aversion as offshore economic data continued to deteriorate. Domestically, 'reporting season' highlighted the increasingly difficult macroeconomic environment; with industrial company earnings declining 11.9% on the previous comparable period. Many companies disappointed the market including several 'market darlings' such as Brambles, QBE and Woolworths. Balance sheet strength remained a key focus as Energy, Consumer Staples and IT sectors outperformed while Industrials, REITs and Utilities lagged.

Portfolio Activity

Holdings in Lend Lease and Suncorp were increased through participation in attractively priced placements. The position in Orica was increased during the month following a sharp drop in its share price mid month. To fund these, the position in Tatts Group was trimmed, following several months of strong share price performance. A new position was initiated in Ansell.

Ansell had been sold off this calendar year to levels where it appeared attractively priced. Sixty percent of its earnings are derived from the economically defensive healthcare and consumer segments giving the company a strong underlying earnings base. We expect their occupational glove business to decline but this appears to be priced into the valuation. The company looks set to benefit from falling commodity prices, which comprise 35% of their cost of goods sold.

The balance sheet is very solid and the business generates sufficient cashflow to fund capex and pay a 5% dividend yield.

Stock Performance

The top performer for the month was Fleetwood (+20.4%) following its solid 1H09 result that highlighted the relative earnings certainty of the business (due to a high portion of contracted revenues) and strong balance sheet. Other top performers included Commonwealth Bank (+15.0%) following a strong 1H09 result and Westpac (+8.0%) following positive commentary at its trading update.

Companies with high levels of gearing tended to underperform, including Pacific Brands (-47.1%), STW Communications (-33.3%) and Fairfax (-32.4%). Despite no major surprises with their December period results and reasonable operating performance relative to peers, investors completely ignored these positives and are fixated on risks around refinancing and breaching debt covenants. We believe that these risks will only materialise in a deep recessionary scenario, which already appears to be factored into the share prices. Yet it appears that the share prices of many other stocks, most notably the banks, some miners, beverage stocks and some healthcare companies, are pricing in a mild downturn and have far greater downside in the event of a lengthy recession.

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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