



Monthly – High Conviction Fund

November 2008

Performance Summary

	1 month	3 months	Inception
Portfolio ¹	-5.5%	-30.3%	-28.6%
Benchmark ²	-6.3%	-26.5%	-27.1%
Performance	+0.8%	-3.8%	-1.5%

Month Summary

The portfolio returned -5.5% for the month of November 2008. This outperformed the benchmark S&P/ASX 300 Accumulation Index, which returned -6.3% for the month.

November continued a poor recent trend for the Australian equity market, which has returned only one positive month out of the last six and just three since peaking over a year ago. Volatility (as measured by the VIX Index) remained elevated as the market fell to levels last attained four years ago.

Companies continued to raise equity to repair balance sheets as investors remained focused on refinancing risk. The major stock specific news was BHP withdrawing its offer for RIO Tinto as it no longer believes a merger would be in the best interests of BHP shareholders. Ongoing high levels of risk aversion resulted in traditional defensives outperforming, including REITs, Telecoms and Utilities, while higher beta

sectors underperformed such as IT, Consumer Discretionary and Industrials.

There has recently been a heated debate around the merits of short selling and whether or not the practice should be banned. We have little to add to the argument, but would side with those who point out that short selling does not appear to cause the market to fall and, in general, does not hurt fundamentally sound stocks. It is interesting to note that there is no debate around practices that might have artificially inflated prices. In the last week of November the market closed up significantly in the closing “match” on a few occasions, driven by rises of as much as 6% (in the match alone, not the day’s move) in large, normally liquid stocks such as CBA, Westfield and QBE. This could be month end “window dressing”, but attracts no scrutiny from ASIC.

Portfolio Activity

The intra month sell down of several high quality large caps enabled us to establish a new position in Leighton Holdings while increasing the weightings of Ramsay and Suncorp. Leighton Holdings had been sold off in recent months to levels where it appeared attractively priced. Despite a slowing macro environment, the company guided (at its AGM during the month) to 15% earnings growth for FY09 and has

continued to win large projects. The holding in RIO Tinto was reduced. Without the prospect of a BHP take over, RIO's debt level, questionable ability to dispose of non-core assets and fundamentally weak outlook for aluminium will be brought to the fore. The position in Mount Gibson Iron was completely exited as the weakening demand for iron ore will have a significant impact on the smaller 'pure play' iron ore producers.

Stock Performance

The top performers for the month were Equinox (+26.8%) on further commissioning progress with receding risk of additional financing requirements, BHP (+10.8%) following the withdrawal of its bid for Rio Tinto and Lend Lease (+10.6%) after reiterating FY09 operating profit guidance at its AGM.

The largest underperformer was Rio Tinto (-39.9%) following the withdrawal of BHP's bid. However, RIO Tinto is an underweight position and did not mar relative performance. Other underperformers included Fleetwood (-33.3%) as most companies with mining services operations were sold down on concerns over industry capex plans and Fairfax (-29.7%) after highlighting tough trading conditions at its AGM. Fairfax has also declined over the last two months on concerns it will need to raise capital to reduce its gearing. However, at its AGM, management stated that it had no plans or current need to raise capital and we believe fears around debt levels have been overplayed.

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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