

September was a positive month for the fund (+0.7%) and the broader market (+2.2%) and completed a strong quarter with the fund up 6.6% and the market up 8.8%. The positive market tone is at odds with the recently completed company results season, where lacklustre performances have led to widespread earnings downgrades by analysts. It is always difficult to attribute short term market movements to anything in particular, but perhaps the market has taken its lead from both Wall Street following a new round of quantitative easing, and a further rate cut by the reserve bank of Australia with suggestions that there might be more to come. Over the last 12 months, the fund has performed strongly returning 15.9%, compared with 14.5% for the broader market.

During the month the largest positive contributions to performance came from Austbrokers, Peters Macgregor, Reece and Blackmores. Austbrokers is a thinly traded stock and the share price move was more the product of this thin trading, and since the end of the month the price has fallen back to where it was previously trading. Peters Macgregor is a small listed investment company which specialises in international investments, and has traded at a significant discount to asset backing for several years. In recent times this company along with a number of other listed investment companies has seen the discount to asset backing reduce significantly.

The largest negative contributions to performance during the month have come from ARB, Woolworths, Macmillan Shakespeare and Fleetwood. During September Woolworths announced the sale of the Dick Smith electronics retail chain of stores at what can only be described as a bargain price to the private equity buyer, following several years of poor results from the business. The Fleetwood share price has been on the slide since reporting disappointing full year results in August.

A number of stocks, particularly the larger holdings, have performed very strongly over the last 6 to 12 months, with the share prices moving up by much more than the underlying business fundamentals. Consequently, a range of holdings within the fund were either partially or completely sold.

Our preference has always been, where possible, to own what we see as high quality businesses. That is businesses that display high profit margins, low volatility in revenue and profits, high return on capital, low leverage, and strong free cash flow. Currently, these businesses are quite popular with investors, and share prices are reflecting that. As a result, we are finding it difficult to identify companies that we would like to own at prices we would like to pay. In this situation, our preference is to hold a relatively high level of cash (currently around 38%) in anticipation of future opportunities at more attractive prices.

Performance Data as at	30-Sep-12
1 Month	0.74%
3 Month	6.57%
6 Month	5.48%
1 Year	15.90%
2 Year (p.a.)	8.06%
3 Year (p.a.)	10.25%
5 Year (p.a.)	1.76%
Since Inception (p.a.)*	6.26%
Net Asset Value Unit Price (\$)	1.2306
Fund Assets (\$ million)	44.44

* Inception date of Fund 18/11/2005

Top 10 Portfolio Holdings	%
Cash	35.30%
ARB Corporation Limited	8.80%
Austbrokers Holdings Limited	5.36%
Flight Centre	4.85%
Woolworths	4.59%
Spark Infrastructure Group	3.82%
Coca-Cola Amatil Limited	3.73%
Cochlear Limited	3.60%
McMillan Shakespeare Limited	2.62%
Sonic Healthcare Limited	2.38%
Other holdings	24.95%
Total	100.00%

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