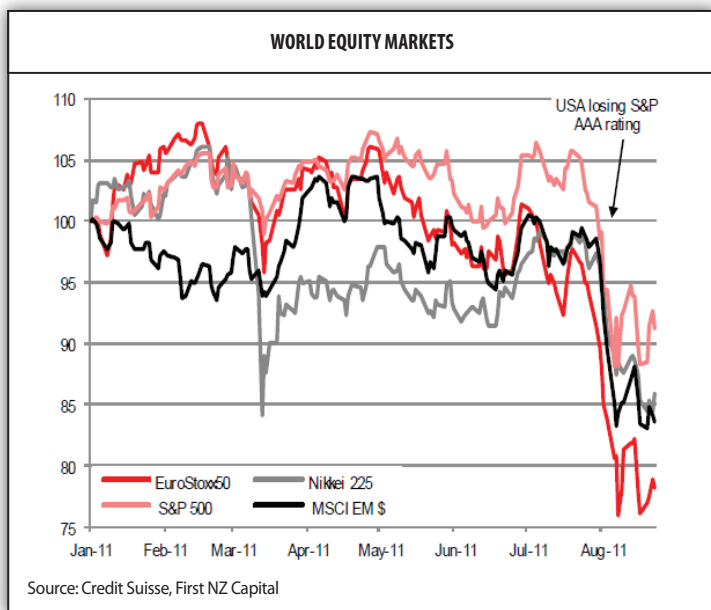




# MARKET ROAD RAGE



*A few weeks ago I was the victim of road rage. Takapuna, dark coloured Land Rover Discovery, middle of the day – one gentle toot leads to a cascade of events.*

First this guy stops his car, blocking me in, then he gets out and starts hurling verbal abuse – and finally approaches me and my little Mazda. What do you do in a situation like this? The guy might have been middle aged, about 190cm with greying hair, but he was bigger and uglier than me and he sure was fuming. I've heard stories of people being pulled from their cars and beaten to a pulp – or worse still, killed. Call me a coward, but I did the only sensible thing you can do in that situation. I quickly locked my doors and avoided eye contact. Sometimes in volatile situations like that, you don't want to be the hero. Avoid conflict, let the guy vent his stress on someone else and live to fight or not fight another day.

Once he had spent all his energy and saw that I wasn't going to respond, he gave one more fist pump accompanied with an F this and then returned to his car and drove off. If you are this person and happen to be reading this, which I doubt, shame on you!

Anyway, one can draw great parallels to what happened in the market this month. **When the market makes volatile, violent moves down, it's best to stay in your car.** Once you can be reasonably sure that the main threat is over, then wade in and scoop up what you desire. I've been building a strategic cash reserve since the start of the year and whilst it was very tempting to deploy this – it's simply too early to buy with strong conviction.

One thing I've learnt over the past four years of market upheaval is that there is no rush. It's always tempting to run in and start buying. However, markets rarely bottom in a capitulation fashion, instead often drag lower over many months. At the extreme on the 9th of August, the ASX was down 25% from its highs a few months back. This has severely damaged investor confidence and market sentiment.



**Market Road Rage** continued on page 2

Market Road Rage continued from page 1

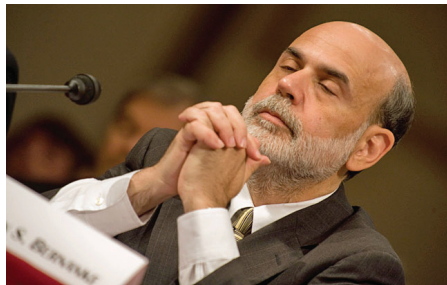
The European situation continues to go from bad to worse and the ECB needs collective leadership to solve this escalating problem. If they do not find a resolution soon, Europe will face a banking crisis, recession and asset deflation.

On top of the Euro worries, the debt ceiling debacle caused such upheaval in the US that it has actually led to a collapse in confidence and manufacturing orders. Many now believe that the US has a 50% chance of slipping back into recession – here comes Double D as they say. Enter Fed Chairman Ben Bernanke on his golden palomino late this month to settle things down.

The market is relying on the “Bernanke Put” to prevent deflation, keep asset prices and banks propped up and he didn’t disappoint.

The Bernanke Put refers to a the scenario where if the stock market declines, Bernanke will extend easy monetary conditions and encourage risk taking to avert further market falls. So far this has worked. For all his critics I think Bernanke has done a great job and in 10 years people will look back and say he was one of the greatest Fed Chairmans ever and the perfect person to have in place in a crisis. Certainly, without him, we would be in a depression right now.

**Okay, so how are we going to navigate this environment?** Well, as you can see growth assets have been marked down considerably in the past three months. The



question remains – have they been marked down enough for all the risk that exists out there right now? Maybe, maybe not. Depends a lot on what happens in Europe in the next couple of months.

**Risk appetite is at extreme panic levels. This usually coincides with a buying opportunity**

There is one glaringly positive factor right now and that is risk appetite measures. The chart below shows that risk appetite is at extreme panic levels. This usually coincides with a buying opportunity. The tricky job for me is to gauge when exactly that moment is, because nobody will ring a bell. I’m confident that by remaining defensive now, we won’t miss the moment when it arrives. My gut feel is that if markets can form a base over the next 3 months it will give me confidence to deploy our cash. However, if prices do become too ridiculous I will step in a take a view, because there are lots of companies out there with good management teams, debt free balance sheets and recession proof earnings trading for low multiples. This is a growth fund and we invest with a 2-3 year horizon. If I can buy growth assets at a deep discount because the market

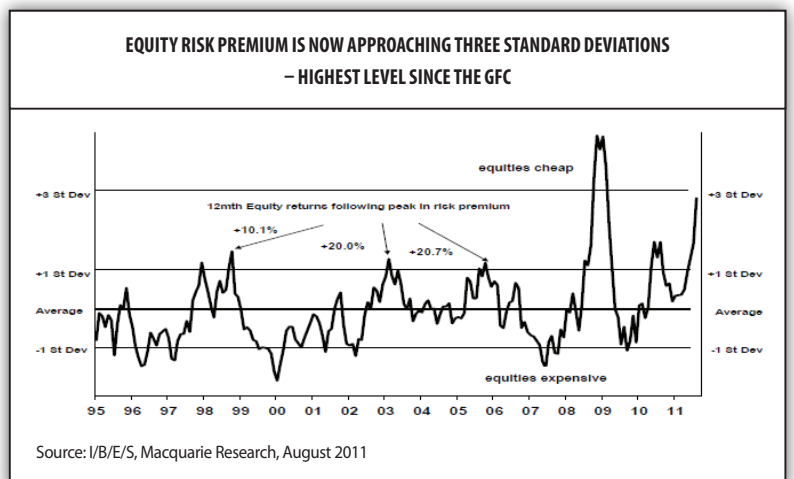
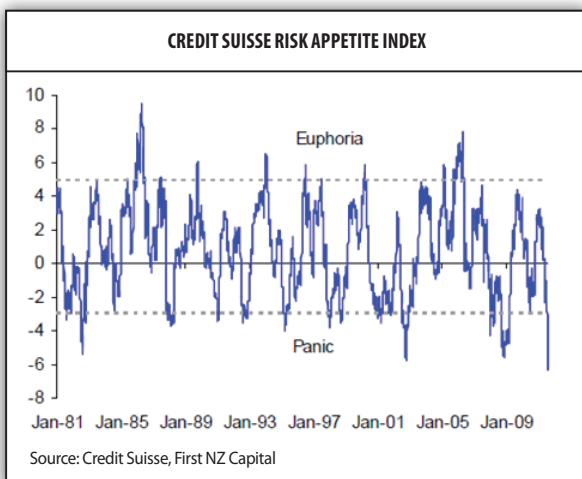
has no risk appetite then I will do so safe in the knowledge that equilibrium will be reached again at some point by which time we should be deep in profit.

Cash might be a safe position for 3, 6 or even 12 months. But it is not a safe position for 3+ years. Interest rates are low and set to remain low. Inflation will remain stubbornly high. Therefore, earning 3% at the bank is not even keeping pace with inflation and in my opinion is not a great long term investment strategy. The time to hold cash long term is during severe deflation or when you can secure 8% and risky assets like shares and property are overpriced – think late 2007. Now is the time to deploy cash into growth assets, get yourself set over the coming few years for the next bull market. Incidentally, cash has become such a poor place to park money that in the US, Bank of NY Mellon are charging investors if they deposit cash.

**As a final note on this point, whilst the market will take its time to “bottom”, stocks with earnings certainty (aka quality) will float to the surface and typically turn well before the market overall.**

I think it’s plain for all to see that the preconditions for cyclical equity market highs such as high gearing, euphoric sentiment and high M&A are not evident. Therefore this is a time to be patient and wait for the bad weather to pass and opportunities to present.

We currently have a net market exposure of 58%. The fund has a high cash position and is short the market via futures as a hedge to reduce downside volatility.





**15**  
days  
to go

## pie australasian growth fund

The PIE AGF will be soft closing to new investment on the **15th of September**. Therefore you have just 2 weeks to increase your investment or join the fund.

## You asked for it – we built it

The Pie ADF will launch on September 16. This exciting new product will be launching at a time when dividend yields are high across the market and interest rates are low. The focus will again be our speciality, small companies.

We expect this fund to deliver a lower total return than the Growth Fund over time. However, the fund will have a more conservative approach and provide investors with a regular dividend stream as well as capital growth.

The strategy is fairly simple and Pie will aim to grow the dividend distribution each year.

I think this product is unique in the market place and is a viable alternative for those looking for some equity exposure instead of cash or bonds but also wanting/needing an income return.

This fund will also be subject to a soft close in the future.

If you want to switch from the Growth Fund to the Dividend Fund you can, for no cost. Additionally, we are dropping the buy/sell spread of 0.5% from 16 September.

For the full Fact Sheet, please email [mike@piefunds.co.nz](mailto:mike@piefunds.co.nz)

## Pie Australasian Dividend Fund



### Investment Strategy

*The Fund's main objective will be to identify smaller companies that exhibit three key characteristics, earnings stability, growth and a sustainable dividend distribution policy.*

*As opportunities are recognised, the fund will invest in companies that Pie Funds believes will be able to deliver the portfolio with a growing dividend stream and long term capital growth.*

*During periods of uncertainty the fund can increase its cash position up to a maximum of 100% of the portfolio to reduce downside volatility.*

### Launch Date

**16 September 2011**

### Fund Details

PI.E. registered	Yes
Management Fee	1.0%
Performance Fee (high water)	10%
Entry/exit fee	Nil
Trustee/Registry/Custodian Fee	0.32%
Minimum Investment	\$5,000
Minimum Regular Investment	\$1,000
Distributions	June, December
Withdrawals	20 working days
Manager	Pie Funds
Trustee	Trustees Executors
Custodian	Trustees Executors
Auditors	PwC
Legal Advisors	Bell Gully

# PORTFOLIO

*The portfolio has taken a hit this month as you'd expect, but I think we have fared pretty well given what's gone on. However, despite macro concerns this has been the best reporting season for the Pie portfolio since inception, with every holding reporting in line or beating forecast and providing strong outlook statements. This is creating a strange dynamic where macroeconomic indicators are flashing red, but contrarian indicators like risk appetite and valuations are flashing green.*

The love affair with Telco's and the IT & T sector continues with the addition of Next DC (NXT) to the portfolio.



NXT is similar to MAQ but it is a pure play on data centres. The company is an effective start up that is the vision of highly respected Telco entrepreneur Bevan Slattery, who founded and sold Pipe Networks. NXT has five data centres which are currently under construction or refurbishment and due to be opened over the next 12 months. There will be an interim period while we wait for earnings delivery, but these guys know what they are doing and hopefully shareholders will be rewarded.

## TELCO INDUSTRY

**Why are we invested so heavily in the Telco industry? Growth and more growth, that's why.**

Up until the late 90s there had been little growth in the telecommunications industry as mobiles and the internet were not yet mainstream. Over the past 10 years the industry has been transformed. Wireless internet, fast broadband, cloud computing, smart phones and tablet computers are now the norm. Consumers have an insatiable appetite for data and they want this data at their finger tips. Gone are the days where you surf the net and read email on the home PC. All this information is now provided wherever you are and to whatever device you want. When you think back 15 years ago, even 10, this is a remarkable shift in the way we live our lives and communicate. Fixed line is now in decline, replaced via mobile and VOIP calls (calling someone through your computer, sometimes for free).

## SUMMARY OF THE FULL YEAR FY11 RESULT TO JUNE FOR THE CORE HOLDINGS IN THE PORTFOLIO

Company	Earnings per share	Dividend	Grade	Commentary
CTD	>100%	increase	A+	Excellent Result. Strong forecast growth in difficult sector. Superb balance sheet.
BGL	>100%	none	A+	Great Result. In an envious position. No debt and looking for 100% earnings growth in next 12 months
MAQ	69%	increase	A	Top notch result from this small cap telco not recognised by the market. Continues to trade on cash p.e. of 6x despite significant forecast growth prospects.
MTU	46%	increase	A	This company has achieved 550% EPS growth in 6 years. FY12 is set for more growth albeit moderated as the reinvest for the future.
DIL	n/a	none	A	A shining star for the NZX. DIL is kicking goals in terms of growth and expected to deliver its maiden profit in 2012.
NXT	n/a	none	A	New position and new listing. Company is in ramp up mode, earnings delivery 2 years away, but they are building real assets with great potential
WDS	>100%	increase	B+	Last year WDS made a loss so this has been a good turnaround. Well positioned to take advantage of LNG expansion in Queensland.
SSM	>100%	none	B+	Another loss making turn-around. If they can secure NBN work it should have a good FY12.
MLD	81%	increase	B+	Good result for a company that has been listed less than 12 months. Long term contracts make this a solid hold at this price.
RQL	44%	none	B+	Underlying fundamentals for the sector remain strong. Forecasting earnings growth in FY12. Gets a B+ because they recently lost a contract.
ACL	n/a	none	B	ACL now have FDA approval, however, require funding to progress. Expect some news within the next few months re funding as a catalyst for re-rating.

Therefore, the fund has invested heavily into emerging junior Telco's over the past 3-4 years to capture this trend and we are not done yet. Right now, cloud computing is driving demand for data centres to store this information (so you can access it around the world, i.e. it's not stored on your computer).

### Trends

- Over 80% of the major data centres in Asia-Pacific are running at close to 90% capacity and space is at a premium.
- Cloud computing is the top technology priority for CIO's currently and industry experts expect that by 2020 70% of transactions will be done in some form of cloud environment.
- Global mobile data traffic will increase 26 times from 2010 to 2015 !

The dynamics are very favourable and over the next few years we believe that companies

like BGL, MAQ, MTU and NXT will deliver significant growth which will ultimately be reflected in their share price. Currently the price of these stocks doesn't come even close to recognising the upside potential that exists in the next 3-4 years, assuming management execute on their plans of course.

As always, thank you for your support. If you have any questions please don't hesitate to call on 09 4861701, or email me, [mike@piefunds.co.nz](mailto:mike@piefunds.co.nz)

Mike Taylor  
Managing Director



Top Performing  
NZ Retail Fund  
2009, 2010\*

# pie australasian growth fund

Unit Price: 1.80

August 2011

pie funds  $\pi$

## fund outline

*The Pie Australasian Growth Fund is a P.I.E. registered fund that invests predominantly in small companies listed in Australia and New Zealand. The fund seeks to provide investors with long term capital growth by investing in a concentrated portfolio of hand-picked listed small companies. The Fund Manager is Mike Taylor.*

## manager profile

Pie Funds Management Limited (Pie Funds) is a boutique investment manager that was established in 2007. The Directors are Mike Taylor, Mike Henry, Richard Avery-Wright and Roger J Kerr. Pie Funds seeks to offer clients accountability, competitive fees, personalised service and a strong desire to outperform the market.

## investment philosophy

Pie Funds is a high conviction manager and believes that the market often inefficiently prices smaller companies due to a lack of coverage by the investment community.

## investment strategy

The Fund's main objective is to identify smaller companies that exhibit two major characteristics, value and growth. As opportunities are recognised the fund will invest in companies whose potential Pie Funds does not consider to be fully realised by the market.

## important notes

Visit [www.piefunds.co.nz](http://www.piefunds.co.nz) to download the Pie Australasian Growth Fund Investment Statement. The information contained in this Newsletter is intended to provide a general profile only. Pie Funds does not provide financial advice. If you are unsure about investing in the Pie Australasian Growth Fund you should seek independent financial advice. The information contained in this Newsletter is given in good faith and has been derived from sources believed to be accurate. Past performance is not a guarantee of future returns. No person, including the Directors of Pie Funds Management Limited, guarantees the repayment of units in the fund or any return of units in the fund. Returns can be negative as well as positive. All fees are stated on a GST exclusive basis.

\* As rated by Morningstar and FundSource.

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FundSource Ratings are calculated from risk-adjusted returns over the past three years to 31/5/2011 comparing similar investment entities. The top 15% of investment entities attain 5 stars, next 20% 4 stars, next 30% 3 stars, next 20% 2 stars and bottom 15% 1 star. Past performance is not necessarily a guide to future performance. Any representation or statement expressed in this document is made in good faith on the basis that FundSource Limited is not able to be liable in respect of such representation or statement. FundSource does not guarantee the accuracy of third-party information used to calculate investment returns. This information should not be relied upon as a substitute for detailed advice from a registered financial adviser. Copyright © FundSource Limited. For more information please see: [www.fundsource.co.nz](http://www.fundsource.co.nz). Email [FundSource@fundsource.co.nz](mailto:FundSource@fundsource.co.nz)

## performance summary

(net of fees but before any applicable tax)

1 month return	-5%
3 month return	-5%
1 year return (p.a.)	32%
3 year return (p.a.)	32%
Inception (total)	80%
Information Ratio	1.33

## fund details

P.I.E. registered	Yes
Fund Size	\$22.3m
Management Fee	1.0%
Performance Fee (high water)	10%
Trustee/Registry/Custodian Fee	0.32%
Minimum Investment	\$5,000
Withdrawals	Monthly
Manager	Pie Funds
Trustee	Trustees Executors
Custodian	Trustees Executors
Auditors	PwC
Legal Advisors	Bell Gully

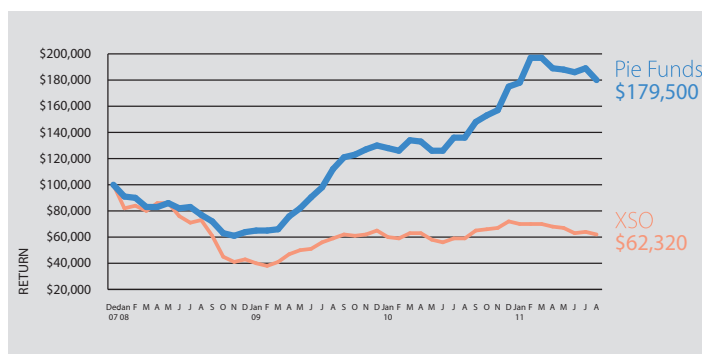
## core holdings

Alchemia	Pharmaceuticals
Big Air	Telecommunication Services
Corporate Travel	Travel & Tourism
Diligent	Technology
Maca	Mining Services
Macquarie Telecom	Telecommunication Services
M2 Telecommunications	Telecommunication Services
Next DC	Telecommunication Services
Service Stream	Utilities
Resource Equipment	Mining Services
WDS	Mining Services

## fund ratings

Morningstar **★★★★** 5/5  
FundSource **★★★★** 5/5

**Graph of \$100,000 Invested**  
Pie Funds vs. Australian Small Companies Index  
December 07 - August 2011



UNIT PRICE

**1.80**

PERFORMANCE SINCE INCEPTION

**+80%**

PERFORMANCE LAST 12 MONTHS

**+32%**

pie funds  $\pi$

Download the Pie Australasian Growth Fund Investment Statement at [www.piefunds.co.nz](http://www.piefunds.co.nz)