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ISSUE 37 : APRIL 2011

KEEPING YOU UP TO DATE
WITH PIE FUNDS
AND THE MARKETS

Unit Price
$1.89
as at 30 April 2011

slice of pie

The China story is going to be a constant source of irritation and chatter this year, so it's worth discussing. However, I don't think Chinese inflation will derail either the global recovery or the equity market in 2011.

China's economy is overheating now due to increased fixed investment and this is going to cause difficulties down the track. But let's first briefly cover where we have come from. China's emergence from an economic backwater, to sleeping giant, to now global powerhouse has been a transformation that has occurred not overnight, but been a 30 year process which most historians will probably label an "economic miracle".

When global demand slumped China faced the very real prospect of a severe recession

Throughout the 1980's and 1990's China attracted multinational companies in their droves with a never ending supply of cheap labour and an emerging manufacturing sector. I have a stapler on my desk which is perhaps 40 years old, it says 'Made in England'. Can you imagine anywhere in the UK manufacturing staplers today? Probably not, particularly when the Brits are notoriously shoddy when it comes to manufacturing. My stapler doesn't work very well – but hey its British and unique. Since the late 1970's China has become the preeminent manufacturer of the world's consumables. Take a look around, most of what

China continued on page 2

EASTER TRADING

Well there were no chocolate treats for Pie this Easter, with a number of positions taking a breather after some solid gains in the past year. As I warned in the last newsletter, our 10 month winning streak was likely to come to an end soon and sure enough it has. I increased my investment in the fund during April and without fail, every time I have put more money in over the years, the unit price immediatly falls – just sod's law I guess. My focus remains on where I can grow the unit price in 3, 5, 10 years, not month to month. I'm not anticipating any price sensitive news out of our companies before June/July so we may have another few months of consolidation ahead of us. The big piece of news that will hit equity markets over the next two months will be the end of the Fed's controversial QE2 in June of this year. I will talk in more detail about that in next months newsletter.

The fund is now over $20m and our close target is $25m, I have commitments for a further $1m so there is around $3m spare capacity at present. In short, yes we are still open.

Please contact me if you would like to discuss investing in the Pie Australasian Growth Fund.

China continued from page 1

you can see has been Fabrique en Chine. However, during the GFC, when global demand slumped China faced the very real prospect of a severe recession as their exports plummeted from 11% of GDP to 5%. The authorities reacted and picked up the slack with increased fixed investment and this now accounts for almost 50% of GDP!

We've all read the stories of ghost cities, empty airports, thousands of huge new government buildings and roads to nowhere. Well, they are all true but what the West finds hard to comprehend is how and why these projects can continue. Simple, China is an autocratic country with high levels of corruption. These infrastructure projects are run by the SOE's and probably wouldn't get off the ground in somewhere like Australia or New Zealand because they wouldn't be profitable for the private sector.

Despite the rhetoric of the new 5 year plan, which aims to increase consumption as a share of GDP, the most likely course of action is the status quo, which maintains growth and continues to line the pockets of corrupt bureaucrats. China's growth through the previous decades via export-led industrialisation has resulted in a high corporate and household savings rates. Unfortunately, the habits of the Chinese consumer cannot be changed in 5 years; it will take another few decades.

In order to move to the next level, China needs to appreciate its currency, save less, consume more, reduce infrastructure spend, increase wages and privatise its SOE's. China cannot continue to grow at a high rate forever; historical evidence suggests that once an economy has finished industrialising, a natural level of growth is perhaps a mere 2.5% p.a. long term.

no country can continue to reinvest 50% of GDP for an extended period

Additionally, no country can continue to reinvest 50% of GDP for an extended period. When will we reach tipping point? I think it's perhaps 2-3 years away, but who knows. I read a report today from a broker discussing how commodities prices were going through a "paradigm shift" due to China's insatiable demand and the industrialisation of India etc. This should be viewed as a warning. With China consuming around 50% of most bulk commodities, Australia's resource sector will suffer significantly once the slowdown starts. I'm well aware of the downside risks and monitor this situation closely.

For the moment though, continue to believe in China. I don't see this unravelling in the short term, but on the other hand it cannot continue as some predict for the next 10 years. I foresee a time in the next 2-3 years when Pie will have to exit our resource and mining services positions. I just don't think that time is now.

Oil, USD and US Economy

The recent rise in the price of Oil is as much about the dramatic fall of the US Dollar as it is geo-political risk in the Middle East or the global economic recovery.

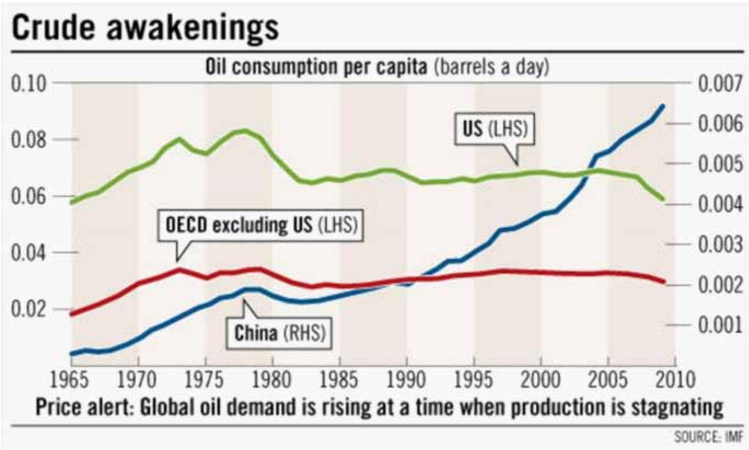
In terms of demand drivers, China's share of global oil consumption rose from 6% in 2000 to almost 11% in 2010. Yet china's Oil consumption is only half as large as the United States. The IMF estimates that per capita energy consumption in emerging counties such as China will grow broadly in line with their solid growth in per capita income for some time. However, Western Oil consumption per capita is probably now in decline. Therefore increasing demand is not driving prices. So what is? Mainly USD weakness but also supply distribution and longterm supply worries (see this video on you tube www.youtube.com/watch?feature=player_embedded&v=RaNz3qS5WAo)

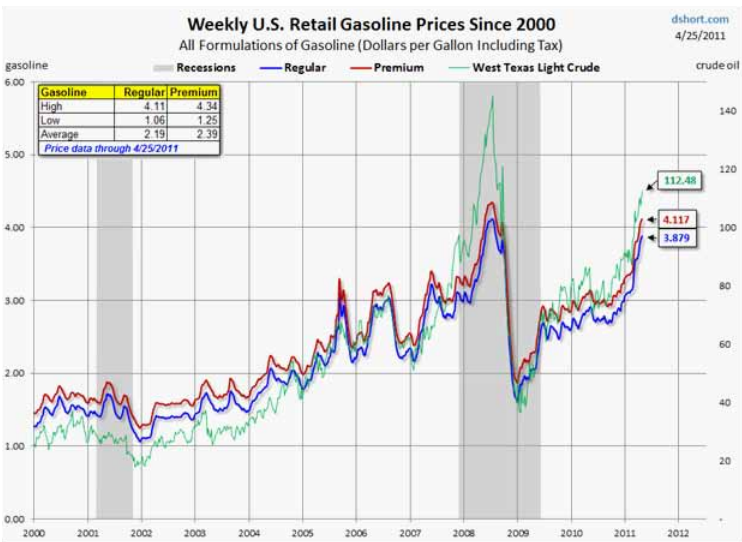
As can be seen from the chart (see graph opposite), US retail Gasoline prices are now double what the average has been since 2000. Not wanting to pluck figures out of the air, but most likely US$5.00 a gallon psychologically would be a level that most consumers would probably start to alter their behaviour. Of course over time that number would become less significant, but for 2011, if Gasoline hit US$5.00 I think it would start to really impact the US economy.

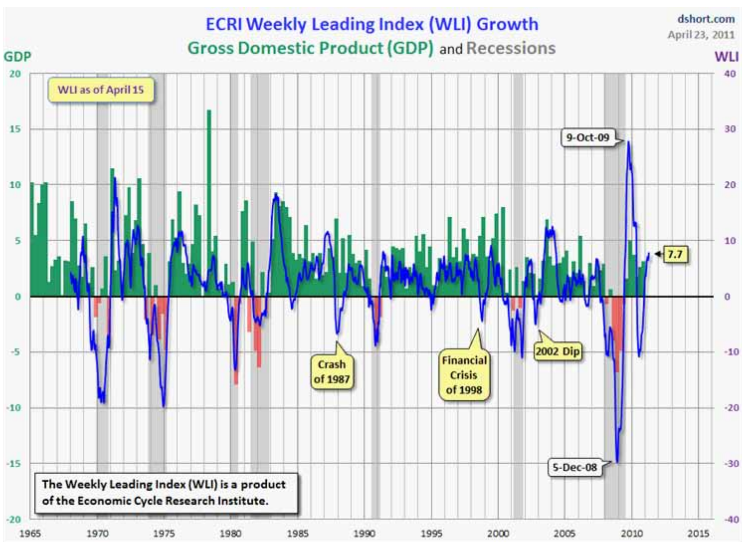
Keep an eye on Oil prices as something that might either be a handbrake for the US and world economy later this year, or worst case if prices continue to rise unabated turn the momentum we are currently enjoying from positive to negative. This is actually my biggest fear and and top pick for the cause of the next global recession in say 2 years.

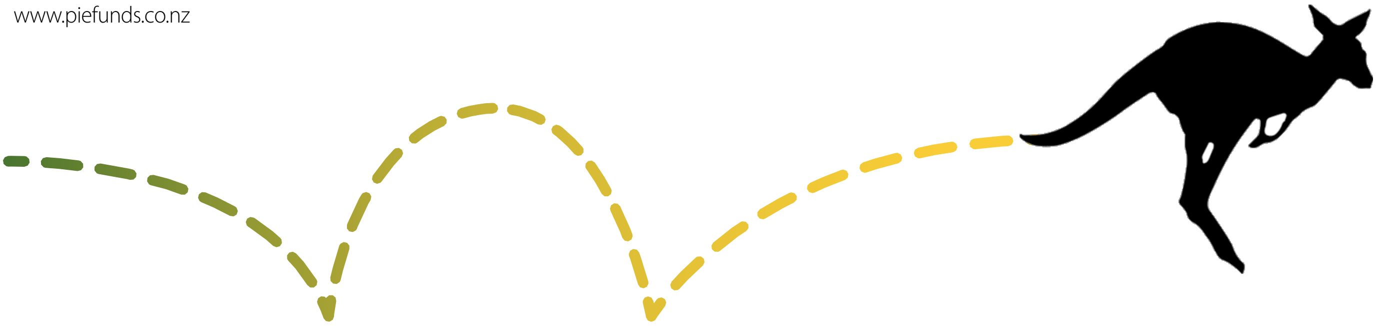
However, for the moment, everything suggests the US economy continues to have growth momentum (see graph opposite) and can cope with Oil and Gasoline prices at current levels. The current US reporting season is once again proving very robust.

Lastly, US 10 year interest rates remain low (3.28%) A good sign for the market in general and it also means bond holders aren't worried about the end of QE2.





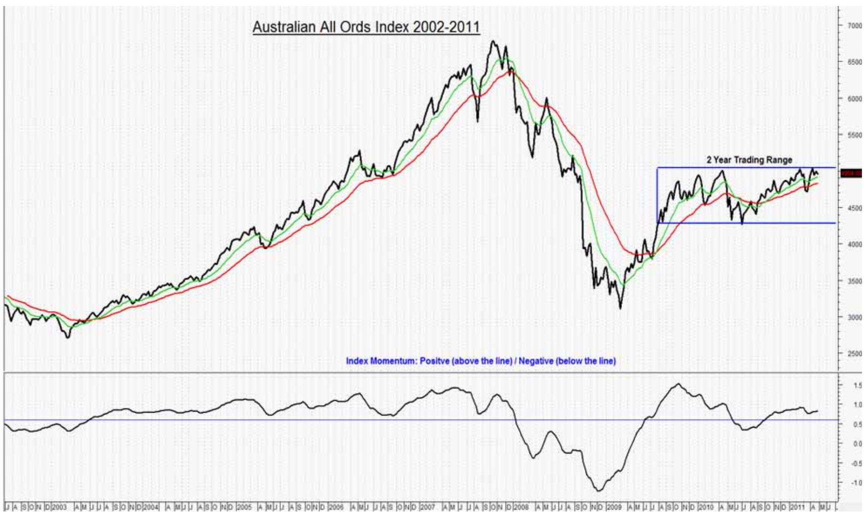




Australian market continues its sideways consolidation as a strong AUD and mixed corporate earnings hold back the market – the opposite of the US at present.

I think it is unlikely that the ASX All Ords will break out of this trading range in the next few months. However, I remain optimistic that an upwards breakout is possible within the next 12 months (above its current glass ceiling of 5,000). The ultimate direction will be determined by corporate earnings over the coming year and whether they exceed expectations or disappoint. You will note that despite the fact that the All Ords has travelled sideways since August 2009 with some quite volatile periods in between the Pie Australasian Growth Fund has delivered a return of around 70% after fees. So a range-bound market over the next 12 months doesn't necessarily imply the fund will be flat, in fact on the contrary, it just means that we'll have to work hard for gains.

AUSTRALIAN ALL ORDS INDEX 2002-2011



GREEK DEBT

The growth dichotomy between the core and periphery of Europe continues to play out, with 1.8% GDP growth expected across the region in 2011. In the core economies, particularly Germany, a large external trade share and exposure to strong growth in emerging markets, as well as solid income growth, should continue to propel growth over 2011. While in the periphery, Portugal is the latest country to ask for assistance.

In March 2010 and then in June 2010 I raised the issue that Greece would default in some way shape or form in the next 2-3 years. The Greeks are failing to rein in the deficit and their austerity measures aren't working (austerity is realistically something only the Brits and the Germans could probably pull off, it was never going to work with the Greeks), so now yields are surging and rumours are rife that a Greek debt "restructuring" is imminent. Restructuring somehow seems less painful than full default. However, let me share something with you – there is no difference. As soon as a corporate or nation is not paying the full principal, full coupon or paying them on time that is a default under the original indenture of any debt instrument that at a bare minimum specifies when you get paid, how much and in what currency. All restructurings are a default – they are just waived by the bondholders (or not, in some cases).

Of course they could always get another bailout from the EU....

The markets have become fairly blasé now about the Greek situation so don't expect too many ripples when this default, I mean restructuring finally does occur.

PORTFOLIO UPDATE

We've cut the balance of our position (having reduced last month) after a "surprise" capital raising was sprung on shareholders due to a deteriorating cashflow. This is not only a complete contradiction to the statement the company released to the ASX a few weeks prior but also poles apart from what management had told us in February. Interestingly when CSV had litigation last year and the CEO had to testify, the NSW Supreme court judge called him a liar! There's always warning signs with stocks, and clearly we missed the early ones. So continues our zero tolerance policy. It's the end of an era in some ways. CSV was the only core position in the fund that has been there since inception in 2007. We've had a long standing relationship with the company and it's somewhat sad that the link with CSV and the start of Pie had to be severed. But I will not tolerate management that lie to me.

Maca continues its run of good news and in April announced they had received a letter of intent for a massive new mining services contract – an 8 year A$450m Gold project in WA. Upon award of this contract Maca's total work in hand would be in excess of A$1.2b.

Recent price weakness in some of our other positions such as Maquarie Telecom and M2 Telecom is in our view merely an opportunity for us to top-up, as these stocks take a breather after an impressive 12 months. At current prices, based on Pie's estimates both MAQ and MTU are once again at very attractive levels and they remain our top two picks.

Bucking the trend was Corporate Travel who had a good month. After meeting with management this a few weeks ago we remain very confident of this business model and expect them to upgrade earnings in the next month or two.

There are around 3-4 other companies we are seriously looking at currently for possible inclusion in the portfolio, but outside of mining services, profitable high growth companies are quite hard to come by in Australia and New Zealand given the both countries have two speed economies at present.

I'm taking the family for a holiday at the end of May, (the first proper break in 4 years since starting Pie). Don't be alarmed, I'll still be watching the markets every day (unfortunately) and Mark Devcich, our analyst will man the fort whilst I'm away.

I will be clearing my email every day, otherwise for urgent enquiries you can contact Mark Devcich on +64 9 486 1701

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

Mike Taylor
Managing Director

The Pie Funds Story

We've recently had a video made to tell the story of where Pie Funds has come from and the exciting future ahead of us.

You can view it online at www.piefunds.co.nz

pie australasian growth fund

Unit Price: **1.89** **April** 2011

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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.

performance summary

(net of fees but before any applicable tax)

1 month return	-3.8%
3 month return	+6.4%
1 year return (p.a.)	+41.7%
3 year return (p.a.)	+31.9%
Inception (total)	+89.4%
Information Ratio	1.29

fund details

P.I.E. registered	Yes
Fund Size	$20.2m
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
Corporate Travel	Travel & Tourism
Maca	Mining Services
Macquarie Telecom	Telecommunication Services
M2 Telecommunications	Telecommunication Services
Service Stream	Utilities
Resource Equipment	Mining Services

fund ratings

Morningstar ***** 5/5
Fundsource ***** 5/5

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.

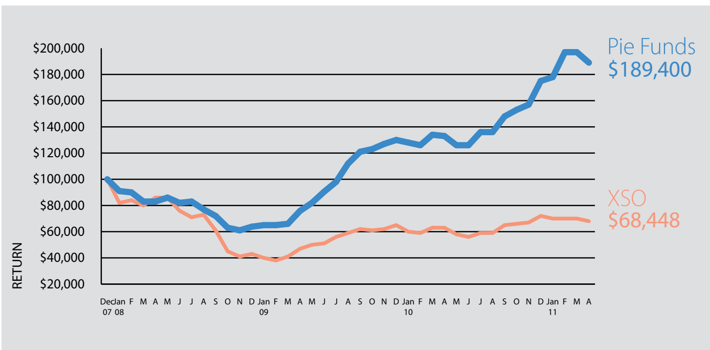
investment philosophy

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.

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



UNIT PRICE
1.89

PERFORMANCE SINCE INCEPTION
+89%

PERFORMANCE LAST 12 MONTHS
+47%

important notes

Visit 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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Download the Pie Australasian Growth Fund Investment Statement at **www.piefunds.co.nz**