

# To default or not to default, that is the question

*I think Shakespeare would have a hard time getting his head around \$14 trillion of debt let alone why petty squabbling amongst politicians is leading the world's largest economy to the edge of the abyss.*

You know, I didn't even want to dedicate any air time to the debt ceiling. I think it's ridiculous how the world media has gone into an absolute frenzy over this issue. It's entirely political, the debt ceiling is self imposed. Consider it like you phoning your bank to say, "Sorry, I'm not paying the mortgage this month, I've borrowed some money elsewhere and reached my debt ceiling".

I've have a perfectly simple, yet unpalatable solution. Cut military spending, pull out of Iraq and Afghanistan, save \$1 trillion in 5 years.

The real risk is actually in a credit downgrade from AAA to AA. I think this is almost inevitable now. This may cause a minor stir, but within a week it will still be business as usual. The US debt market is simply too large and there is nowhere else capable of taking that fund flow. However, on some scorecards the US is looking pretty good. Corporate earnings are strong, the USD is weak, interest rates are very low and housing looks to have found a base. However, this is all irrelevant for the next week unfortunately.

**Cut military spending,  
pull out of Iraq and  
Afghanistan,  
save \$1 trillion  
in 5 years**

Pie will chug on regardless, as we have always done, through a global financial crisis, oil crisis, sovereign debt crisis, nuclear disasters, political impasse, profit warnings etc etc....

Winston Churchill's view of the United States, now 65 years on, is still valid today, "You can always count on Americans to do the right thing – after they've tried everything else".

In short, by the time you are reading this, it will have all blown over or blown-up in our faces. Whatever the outcome is, someone will have to blink first, and then we can all move on and start to worry about the next potential crisis. You'd be forgiven for having completely forgotten about Greece, which nearly forced the Euro to implode earlier this month. The EU/ECB have once again kicked the can down the road here, the problem is not solved, just deferred. At least this time they have given it a good kick! However, the PIIIGS are going to be like the meerkat that keeps popping its head up from time to time. Portugal, Ireland and Greece may now be on permanent life support, however, Italy and Spain are not – watch out in the future if their interest rate on government debt exceeds 7% (it is currently around 5-6%).

*Pie had a couple of good wins this month, hence the unit price nudging up a little. Additionally, I'm pleased to unveil the Pie Australasian Divident Fund. I believe this to be another unique product, tailored to our clients requests and our own skill set.*

SMPPETS



Raise the debt ceiling rap. Hilarious, great lyrics.

[www.youtube.com/watch?v=EoS52fVtVQM](http://www.youtube.com/watch?v=EoS52fVtVQM)



A TEA PARTY STORM  
IN A TEA CUP!



For a sobering view of the US debt, have a look at this website

<http://usdebt.kleptocracy.us/>



# ONE LAST ROUND!

I've had a couple of parties indicate an interest in taking the remaining capacity within the growth fund.

If you have any interest, this is probably the last chance before we soft close.

From the stable that brought you the  
*Pie Australasian Growth Fund*,  
NZ's top performing retail equity fund  
since 2007, we present the...

# Pie Australasian Dividend Fund



A couple of investors have indicated an interest in switching from the Growth Fund to the Dividend Fund, this may also free up some additional capacity in the Growth Fund.

Full details of the Dividend fund will be released soon, at which point you can assess whether this unique Pie product would suit you.

We've designed this product around client requests, and our own skill set, so I know many of you will like it.



# Australia

**Australia is also facing a few issues at present, many of which are self-imposed, including:**

1. Strong AUD;
2. Ongoing global macro concerns;
3. Mining & Carbon tax;
4. Fall in consumer and business confidence;
5. Rising interest rates; and
6. Increase in household savings rate and subsequent decrease in consumption

Household savings rates have gone from -2% in the early 2000's boom, back to 10%+, a level last seen in the 1980's. Combine this with softening house prices and an equity market that has gone nowhere for 2 years (and is well off 2007 highs) and you have a recipe for weak

domestic consumption. On the positive side, this is exactly the medicine that the country needs, unless you are a retailer. The household deleveraging will continue probably for many years, but at a less aggressive rate. In addition, shock horror!, but Aussies just aren't feeling that confident right now. Consumer and business confidence has fallen recently and outside the mining sector, the economy is probably going backwards. That's why we have to be very picky in our stock selection. The industrial sector of the Australian equity market **has not had an earnings recovery since the GFC** - that's 4 years of negative earnings growth. Most analysts are forecasting the next 12 months *will* see an earnings recovery, but this is by no means certain. In order for the Australian market to break out of the doldrums, we will need to see earnings growth. Meanwhile, Pie will remain focused on the crème de la crème of small companies and only invest in areas still exhibiting growth, which over the past few 2 years has essentially been confined to mining related companies and IT&T.



# PORTFOLIO

*The fund was mildly positive this month although July was yet another period of volatility and uncertainty. I think it's fair to say that since we started Pie Funds we have not been through a quarter where there hasn't been some underlying macro fear hanging over us. If we could just have 6 months where the only worry is the performance of the companies themselves, that would make life a lot easier.*

Despite the volatility we saw good performances from a couple of companies.



**DILIGENT** 2Q11 record sales number showed the company continues to grow at a rapid clip. DIL's revenue was up 91% on last year. Although its off a small base, DIL is an exciting story and the apple iPad is proving a boon for the company as the device is such a natural fit for DIL's boardbook application. DIL was up over 25% for the month.



**ALCHEMIA** our biotech play received FDA approval for Fondaparinux (a generic versions of GlaxoSmithKline's Arixtra – blood thinner). The approval process has been long and drawn out and the share price has suffered as a consequence. The outcome of FDA approval is very much a binary one. You either get it or you don't. Manufacturing is already under way via Dr Reddy's wait and first revenues are expected in early 2012. ACL requires approximately \$15m of funding to bridge the gap between now and when revenues arrive. They have various options available and a resolution is expected within the next 2 months, after which time the final uncertainty for production of Fondaparinux will be removed. In the meantime, the stock remains in a holding pattern, but I'd expect a decent kick once funding has been finalised. ALL was up over 20% for the month.

**NEXT MONTH** all our Australian holdings report full year to June 2011 earnings. This will give us greater colour on expectations for the coming 12 months.

**ONCE THE DEBT CEILING ISSUE IS BEHIND US** I'll be looking to cautiously increase our position in most of our companies and perhaps add one or two new ones. I'm completing some due diligence on another IT&T and Iron Ore investment at the moment. Plus we are already well advanced in selecting the companies that will form part of the Pie Australasian Dividend fund portfolio when it is launched...very soon.

To paraphrase Buffet: "I don't know what will happen to the stock market over the next few weeks, but I do know that buying stocks that have strong balance sheets when they are trading for bargain prices is an approach that has withstood the test of time."

There are now a number of investors in the fund who I haven't met or spoken to before. We like to maintain a close relationship with all our clients, so don't be shy, if you have any questions or queries feel free to phone, email or pop by. I will probably be having a few investor evenings later in the year so that will also give you a chance to meet myself and the rest of the Pie team.

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 NZD is now trading at ridiculous levels.*

There are too many people sitting at one end of the table feeding from the weak USD trough. It's usually at this point when the table has a nasty habit of upending. The chance of the NZD hitting parity with USD in the coming months seems, well, crazy.

You'll love this. A couple of days ago, between songs, I heard the DJ on More FM talking about how high the NZD was. It seems we are either going through a paradigm shift and the NZD really is the new safe haven, or this is the top.

You decide – everyone is an expert on currency these days.

Top Performing  
NZ Retail Fund  
2009, 2010\*

# pie australasian growth fund

Unit Price: 1.XX

July 2011

## 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 FundsSource.

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FundsSource 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 FundsSource Limited is not able to be liable in respect of such representation or statement. FundsSource 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 © FundsSource Limited. For more information please see: [www.fundsSource.co.nz](http://www.fundsSource.co.nz). Email [FundsSource@fundsSource.co.nz](mailto:FundsSource@fundsSource.co.nz)

## performance summary

(net of fees but before any applicable tax)

1 month return	-1%
3 month return	-5%
1 year return (p.a.)	48%
3 year return (p.a.)	31%
Inception (total)	86%
Information Ratio	1.33

## fund details

P.I.E. registered	Yes
Fund Size	\$21.3m
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

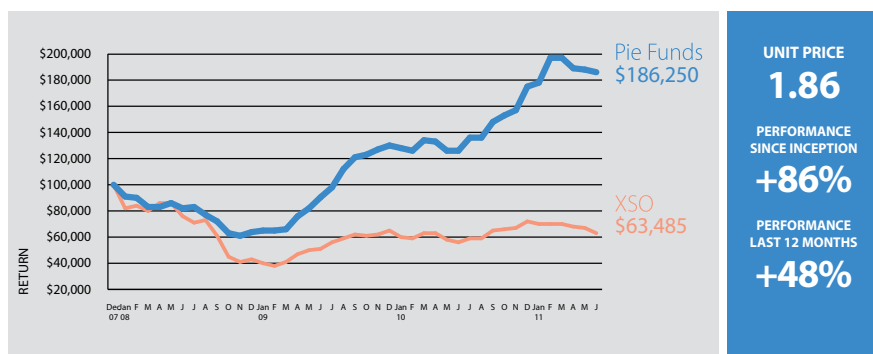
## core holdings

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

## fund ratings

Morningstar **★★★★★** 5/5  
FundsSource **★★★★★** 5/5

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



UNIT PRICE

**1.86**

PERFORMANCE SINCE INCEPTION

**+86%**

PERFORMANCE LAST 12 MONTHS

**+48%**