

Unit Price **PIE AGF**

\$1.71

Unit Price **PIE ADF**

\$1.01

as at 30 September 2011



slice of pie

GREEK TRAGEDY

FINAL ACT

Act 5 – Final Act. In Sophocles 6th

Century BC play 'Ajax', the main character Ajax is angry that he has been fooled and fearing others are laughing at him, commits suicide.

The last part of the play revolves around a dispute over what to do with Ajax's body.

Today, two and half millennia later, another greek tragedy is moving into it's final act. From a fiscal sense, Greece is now dead, they committed suicide by taking on too much debt. Now the remaining EU members are arguing over what to do with the body.

There's no hiding the fact that September was a particularly difficult month for the Growth fund, in some ways more so than August. After tracking back up to the mid 1.80s in early September, volatility spiked again later in the month, sparking further market selling. An example of this would be from a couple of days ago when I received a call from a broker looking for a buyer in one of the stocks we hold. It turns out they were calling on behalf of a small cap manager that is in a spot of trouble. The fund in question is down 50% in recent months and they are facing unsurprisingly, massive redemptions. The broker described them as desperate sellers. I think this is a sign of things to come over the next few months. Margin calls, forced selling, redemptions, despair, followed by complete apathy for the equity market. The best thing you can do in this situation is make sure you are in a position to take advantage of

distressed selling. Keep some powder dry as they say. However, there is a big difference between buying a quality asset off a distressed seller and just buying an asset because it looks cheap. You have to be selective and ruthless.

Last man standing will get the best deals in this environment.

Investor sentiment is as bad as I've seen it in my career, worse than 2008, because now there is a sense of hopelessness. **It's like investors are waiting for the end of the world**, but at the same time, planning next year's harvest. It is difficult to find any positive news. It's all doom and gloom everywhere you turn. In 2008 investors were panicky, but probably deep down always believed the situation would improve as it had done with previous recessions. However, now, in late 2011 with the crisis continuing to drag on, I get the sense of real despair from investors. They don't want to leave their money in the

bank permanently earning no interest, but they are scared of almost every other asset class, even Gold is now extremely volatile. Logic suggests that the next 3 months could provide one of those rare windows for contrarians to buy and take a long term view. I have a series of indicators I'm watching and waiting for them to turn. In the meantime we continue to play defensive. Net invested exposure to the market is now only 30% (70% cash/hedge) for the Growth fund and 5% (95% cash) for the Dividend fund.

Last man standing will get the best deals in this environment

Capital preservation is No.1 priority. I'm still in the car, doors locked! But like a firefighter, ready at a moments notice.



INDICATORS	
1	Equity charting technical indicators turn positive
2	Equity volatility peaks and then declines
3	Increasing supply of good economic news
4	Recovery in Corporate Bonds
5	Firming in commodity prices, mainly Copper
6	Interest rates trough
7	Recovery in Auto Sector
8	Monthly job losses start to recover
9	Market p/e ratio between 5-10x (ASX and European markets)
10	Disinterest in Equities and low market volumes.
11	Acceptance that you have probably missed the bottom by 10-15%

TRAFFIC LIGHTS ARE BACK !!

Back by necessity rather than desire. I was hoping I wouldn't need to pull these out for a few more years.

I've added one more, declining volatility in equity markets.

Feet of Heidi Taylor



TIME CONQUERS VOLATILITY

I thought I'd give you a little story about volatility, because I know there are a few folk who joined the fund earlier this year at higher unit prices, I do feel for you, as I put more money in myself at higher prices.

My son Zach was born right around the time we started the Growth fund. Yes, it was a busy time for me! I invested \$5,000 in the fund for him, partly to give Zach a good financial start in life that he can draw on in 20 years, and partly as a challenge to myself to see what I can grow it to over the next 20 years. By his first birthday at the start of 2009, his investment was worth \$4000, down 20%. Not a great start, but by his second birthday in February 2010 it was worth \$7800 up 56% , by his third birthday \$12,175 and today \$10,620. What will it be worth for his tenth birthday... Significantly more if I do my job right. I don't want to regurgitate all that spin about "time in the market" but clearly the more time you have, the greater your chance of cashing in your investment at a higher price.

Note: I invested \$5,000 for my daughter when she was born in 2010, however, after a few months I realised that when she gets to 20, she will ask, "Dad, how come Zach has more money than me in the fund?". So I had to top up her account (at the highs) so she now holds the same number of units as her brother!

POLITICAL SITUATION IN EUROPE AND AMERICA

The political situation in Europe and America is causing more damage to the market than economic news.

The current economic numbers for the Eurozone bloc and America show economies at stall speed, but are not indicating a severe recession yet. For example the US was losing 700,000 jobs a month in October 2008 and is currently adding around 50,000 new jobs a month. Big difference. Whilst of course a severe recession could hit next year, its wrong to say we are in one right now.

Ultimately, the main problem that exists both in Europe and the United States is a political one and it's about restoring confidence to



the people and companies of those nations. In the US, Obama is unable to pass through any meaningful legislation (good or bad) because the Republicans block his every move. Therefore the US will remain in a state of flux until Presidential elections at the end of 2012. In Europe, 17 EU member nations have to

agree before for anything can happen with the debt crisis – its effectively like herding cats. The longer the political mess continues the more confidence falls, the greater the chance of a recession. It seems, on current form we can't rely on "Markozy" to save the markets. They are fast running out of runway.

Pie Australasian Dividend Fund

The Dividend fund is off to a solid start. However, without doubt once again we have launched another fund into chaos and have been forced to jump straight into the deep end. Despite this, we will keep calm and carry on. The intention is to build the Dividend fund's portfolio slowly over the coming 3-6 months and use the enviable near 100% cash position to pick off the best companies, which normally trade at a premium, for a discounted price. **Remember no matter what happens in Greece, people in Australia & NZ still need to use the internet and eat!** We've been here before and we came out the other side.





Dividend Portfolio

I've compiled a list 11 companies that I would like to purchase for the dividend fund. It is the intention to construct this portfolio over the next six months, perhaps earlier if appropriate.

There is a strict criteria for inclusion in the Dividend fund. Whilst I don't want to give away all my intellectual property, we are targeting companies with consistent earnings history, growth potential, sustainable dividends, quality management, high return on equity and low debt, but to name a few. If we were to purchase all 11 companies equally weighted today it would provide a yield of over 6%. If markets continue to fall then that yield might be 8% by Christmas.

GROWTH PORTFOLIO

In terms of the performance of the Growth fund over the past 3-6 months, yes – it's disappointing, in that with hindsight clearly profits should have been taken in the likes of Maca, Service Stream and Resource Equipment during the first half of the year.

I have reduced our holdings in those three positions to trim risk – but we may have to cut them altogether. The other positions I don't regret holding through this turbulence. That is the nature of the beast at times unfortunately and nobody feels that more than myself, as my financial wellbeing is tied to the performance of Pie's Funds. I know that potentially we can make up that lost ground very quickly. This is not me leaving in dream land, we've done it before multiple times. Since inception there have been six individual months where performance has been greater than 10%, two of which were over 14% for the month.



Next DC I really like Next DC and their business is not exposed to any potential downturn in the economy. We continue to add to our position on down days in the market. You can follow the construction of their data centres here via their company blog. www.nextdc.com/blog



Alchemia Alchemia's new oncology drug is being hailed as a breakthrough in the fight against cancer which in trials to date, makes chemotherapy 40 times more effective. The drug has been developed over the past 13 years in Australia. See the remarkable story (click on the link below) in which one Australian man's tumour disappeared in five weeks with just one treatment. I'm sure that we all hope this kind of technology can one day make it through to mainstream medicine. au.news.yahoo.com/video/national/watch/26753183/885604/

On average the portfolio is now trading at a 35% discount to what I would consider intrinsic fair value, with companies like Macquarie Telecom trading at a 50% discount to my valuation. Macquarie has really been belted the past two months. It's hard to fathom given they are a telco with defensive earnings. They are not far from the price we paid two years ago, but profits are now double what they were then.

Despite being down, we have still massively outperformed the index this last month.

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



Top Performing
NZ Retail Fund
2009, 2010*

pie australasian growth fund

Unit Price: 1.71

September 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 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. Email FundSource@fundsource.co.nz

performance summary

(net of fees but before any applicable tax)

1 month return	-5%
3 month return	-8%
1 year return (p.a.)	15%
3 year return (p.a.)	33%
Inception (total)	71%
Information Ratio	1.33

fund details

P.I.E. registered	Yes
Fund Size	\$20.6m
Management Fee	1.0%
Performance Fee (high water)	10%
Trustee/Registry/Custodian Fee	0.32%
Minimum Investment	\$5,000
Withdrawals	20 working days
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

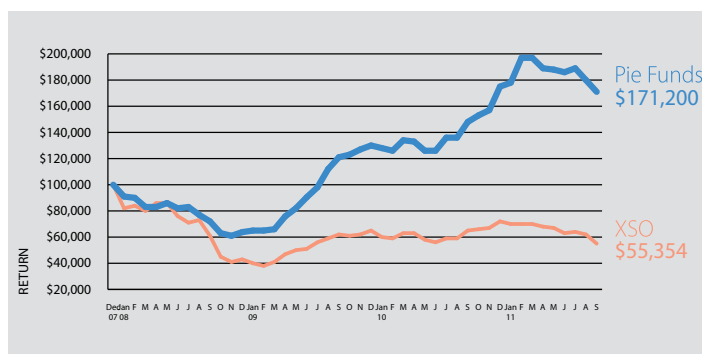
fund ratings

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

Graph of \$100,000 Invested

Pie Funds Australasian Growth Fund vs. Australian Small Companies Index

December 07 - September 2011



UNIT PRICE

1.71

PERFORMANCE SINCE INCEPTION

+71%

PERFORMANCE LAST 12 MONTHS

+15%

NEW

Pie Australasian Dividend Fund

Unit Price: 1.01

September 2011

Performance Summary

(net of fees but before any applicable tax)

1 month return	+1%
3 month return	n/a%
1 year return (p.a.)	n/a%
3 year return (p.a.)	n/a%
Inception (total)	+1%
Information Ratio	n/a

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.

Fund Details

P.I.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

Fund Outline

The Pie Australasian Dividend Fund will be a P.I.E registered fund that invests predominantly in small companies listed in Australia and New Zealand.

The fund will seek to provide investors with a regular dividend payment stream as well as long term capital growth by investing in a concentrated portfolio of hand-picked listed small companies. The fund will aim to grow its dividend distributions each year so that the yield a client receives will grow annually. Clients will also have the option of reinvesting their dividends. Dividend distributions are made six monthly, in June and December. The portfolio 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.

Important Notes

The information contained this fund fact sheet is intended to provide a general profile. It does not represent an offer to invest in the Pie Australasian Dividend Fund. An Investment Statement will be available upon request from 1 October once the fund has launched. 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.

Graph of \$100,000 Invested

Pie Funds Australasian Dividend Fund vs. Australasian Small Companies Accumulation Index

September 2011

