



OCTOBER 2017

A MESSAGE FROM MIKE: GLOBAL RESEARCH IN MOTION

MONDAY 9 OCTOBER, 2017



I've just returned from another round the globe trip. I must say that I love reading the Financial Times; I think it's the best newspapers to read if you are interested in finance, economics and politics – which probably rules out most of the population! Of course, you can read it online for convenience, but there is nothing quite as good as flicking through a real paper over breakfast on the train in London. Whilst over in the UK, I found great reads on Merkel and German politics, US Auto Sub-prime, and clean-energy in Emerging Markets to name but a few, which just aren't covered in local media or even the Australian Financial Review.

We met with a number of businesses as well, a couple of which will be finding their way into the Growth UK & Europe Fund over the next few months. A highlight for me was the trip to Glasgow which I had been dreading. However, the meetings were actually quite good and we learnt something; that in the 18th and 19th century Glasgow's population grew 10-fold as it became the "second city of the British Empire" being one of Britain's great industrial cities. Sadly, the glory days are over and it's not a place for the bucket list.

In summary, as always, the trip was great exposure. I find I learn more about markets in an intense two weeks away than six months at home. It was good final preparation for the launch of our new Multi-Strategy Fund – an alternative asset product designed to take advantage of investment opportunities in different asset classes (long or short) from around the globe. Be sure to check this product out as it is quite different to our other funds. More details enclosed.

As always, thank you for your support. If you have any questions please don't hesitate to call me on (09) 486 1701, or email me, mike@piefunds.co.nz.

OCTOBER 2017

NEW FUND LAUNCHING SOON: MULTI-STRATEGY FUND

MONDAY 9 OCTOBER, 2017



No money is currently being sought. The Multi-Strategy Fund cannot currently be applied for or acquired. If Pie Funds offers the Product, the offer will be made in accordance with the Financial Markets Conduct Act. No indication of interest will involve an obligation or commitment to acquire the Product.

Registering your interest: Email multi-strategy@piefunds.co.nz.

Written by Mike Taylor, Founder, CEO and CIO

Multi-Strategy Fund: It's your move...

Ten years in the making

As a keen chess player, I know that there is more than one strategy to win a game. In my twenty years as an investor and over ten years managing Pie Funds, I've observed booms, busts, bubbles and crashes in just about every asset class imaginable from tech stocks, to bonds to classic cars. Over this time, one thing that stands out to me the most is the sheer number of good investment opportunities, some of which clients at Pie have profited from. But it's not just equity opportunities, I've seen depressed property prices, an over and undervalued New Zealand dollar, bonds yielding negative returns and opportunities to make money as markets fall.

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While our other funds are focused on long-term capital growth from equities, the Pie Multi-Strategy Fund is different. It will seek to make money from the best investment ideas that I can find across different asset classes from around the globe. Depending on the market cycle or opportunity, this might be in NZ shares, US shares, bonds, property, private equity or themes such as clean energy. Our goal is to take advantage of mispricing in the market-place and to have a fund that aims to make money in all market conditions.

Increasingly, as we get deeper into the bull market, it's time to consider how we can make money not just when markets go up, but also when they fall. We believe a strategy like this complements an investor's portfolio. Having experienced many market cycles, I know that there can be opportunities in rising and falling markets. Therefore, this fund will actively seek short positions and use hedging strategies for such occasions.

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Overall, the key to this strategy is ensuring that the threshold for investment is high and waiting for the most compelling ideas. Sometimes, an asset class might only offer up an opportunity every few years. Our intention is to be patient and as Warren Buffet and Charlie Munger say, "invest heavily when you have the odds, the rest of the time, don't".

I look forward to having you as an investor in our new fund, which promises to be an exciting strategy to manage.

Objective

The Fund's investment objective is to deliver positive returns regardless of the movement in equity, interest rate or currency markets. The Fund aims to achieve positive long-term returns in a variety of market conditions by investing across a diverse range of assets and global markets, with the added flexibility to go short.

Investment strategy

The Fund will use multiple investment strategies giving it the ability to reallocate capital between them in response to market opportunities. With a bias to equities (which may include short selling), the Fund will seek investments to help grow and protect capital.

To assist in achieving our investment objective, the investment strategies or financial products the Fund may invest in include, but are not limited to;

- Equities long or short
- Fixed interest
- Cash – multi-currency
- Unlisted investments
- Property
- Derivatives such as equity options, futures, ETF's and CFD's.

Important Dates

- 26 Oct: Application form available on our website
- 1 Nov: Fund commences

ALL WEATHER FUND

Aim to make money in
all market conditions

OUR BEST IDEAS

Multi-Asset Class and
Multi-Region

10 YEARS IN THE MAKING

Portfolio Manager
Mike Taylor

LAUNCH DATE

1 NOV 2017

LIMITED CAPACITY

\$100 MILLION



OCTOBER 2017

INTERNATIONAL REVIEW: TRAVEL BROADENS THE INVESTMENT MIND

MONDAY 9 OCTOBER, 2017



Written by Victoria Harris, Senior Investment Analyst and Co-Portfolio Manager

Canadian club

During the month I flew to Canada to meet ~20 companies. I was pleasantly surprised with the calibre of the companies, and their management teams.

The country's main market index, the Toronto Stock Exchange (TSX) has returned just over 5% in the last 12 months compared to the S&P 500 which has returned over 16%. Therefore, unlike its dominating neighbour, company valuations in Canada appear to be less overvalued, making them more attractive. The Canadian market is similar to one closer to home – the Australian market. Both the TSX and ASX are heavily weighted towards Resources and Energy companies, both markets use similar reporting standards which makes analysis easier, and they both provide investors with great access to top level management.

We met with companies across a broad range of sectors of Consumer, Technology and Industrials, but all with a common theme of being Founder-led and/or having large staff ownership. Another theme was 'Inflection' businesses. These are technology companies which are in the process of transitioning their business models from some form of legacy platform to a subscription-based (or SaaS) business model. SaaS businesses typically command higher multiples due to their scalability, operating leverage and high recurring revenue. Hence, if you can

invest in a company pre ‘inflection’ point, you’ve got a high probability of experiencing strong earnings growth plus multiple expansion.

The beauty of the Global Fund is the geographical flexibility – if one market looks overvalued, we have the flexibility to allocate resources to look for investment ideas in more attractive markets. This in turn is more likely to generate superior investment returns for our clients. As with everything, this, of course, cannot always be guaranteed.

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A good take off

The Global Fund returned 1.2% for September as global markets continue to go from strength-to-strength. Within the direct holdings, the positive fund performance was driven by Curtis Banks (AIM:CBP), Tecnoinvestimenti (BIT:TECN) and - a new addition to the Fund during the month – Chegg Education (NYSE:CHGG).

Chegg Education is a US education-technology company that provides an all-digital interconnected learning platform for students. This is an ‘inflection’ business (as mentioned previously), whereby the business model is transitioning from its legacy model of students purely renting textbooks to a fully-digital, subscription-based model offering study, tutoring and writing solutions. It has strong brand recognition, financial flexibility and a very large addressable market.

The two main detractors from Fund performance for the month were Quixant (AIM:QXT) and Xenith IP Group (ASX:XIP). We exited our position in both holdings during the month. We are also currently working on several new ideas from the research trip that could be potential investments for the Fund.

Written by Daniel Sims, Investment Analyst

Working at a mile a minute

The UK and European team had an extremely busy month as Chris, Mike and myself travelled to London for two weeks of back-to-back meetings. We met with over 40 management teams, sell-side analysts, and economists. The trip proved to be one of our most fruitful, with at least three new ideas coming out of the meetings. Chris and I will now subject these companies to our rigorous due diligence process and flesh out the investment case in further detail, before deciding whether to commit a meaningful portion of the fund’s capital.

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Good news travels fast

Some of the broader macro themes we noticed:

- **United Kingdom: Economy continues to fair quite well**

The UK economy, as far as London is concerned, continues to fair quite well. However, some early warning signs of a slowdown in consumer confidence and spending are starting to appear, with several listed food franchises downgrading earnings in recent months. The portfolio continues to hold very little exposure to the British consumer, however, given the savage share price movement in some companies, we are beginning to devote some time to evaluating specific opportunities.

- **Europe: The best it’s been in years**

Several management teams with significant operations across Europe indicated the economy is the best it’s been in years. We met a swathe of companies operating in a range of industries who were cautiously optimistic. Unfortunately many of the companies we consider “investment grade” have shares prices that already reflect this improved outlook and many are now trading at eye-watering valuations. However, as we are a concentrated

investment firm, we don't need to find many ideas to produce strong performance and we're confident that we'll continue to find pockets of under-appreciated quality and growth.

Travel light: Reduce cash levels

The Growth UK & Europe Fund closed the month up 2.0% driven by STM Group and SafeCharge, which both released interim results. While the cash weighting continues to be higher than we would like, we have made several new investments that should build into material positions and reduce the cash balance. We remain optimistic in the outlook for our major holdings and have a number of exciting prospects to evaluate post our trip. We look forward to providing updates on these investments in due course.

Past performance is not an indicator for future performance. This is not intended to be financial advice and does not take into account any particular person's circumstances. Before relying on this information, please speak to an independent financial adviser.



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AUSTRALASIAN REVIEW: THE FUNDS ARE HAPPILY HOPPING ALONG

MONDAY 9 OCTOBER, 2017



Written by Mike Ross, Investment Analyst

September was a positive month for most of the Australasian funds, with Growth 2 the strongest performer, up 1.8%. Some key contributors during the month included EML Payments, Gentrack and Kip McGrath. The Australasian investment team visited Sydney following the reporting season. We met with a number of existing holdings and new companies, some of which we have since added to the portfolios.

Leaders of the pack

EML announced it had struck two agreements with European gaming and betting operators during the month to provide branded reloadable cards. The first of these was with Fortuna Entertainment Group, the largest betting company in Central Europe, while the second was with Betsson Group, an operator of more than 20 i-gaming brands. Gentrack upgraded its earnings guidance from \$20 million underlying EBITDA to \$24 million at the end of September, confirming our view that previous guidance was conservative. The key contributor to the Emerging Companies fund was Kip McGrath Education, finishing the month up 35%. Trilogy was a key detractor - we have been reducing our position in the company.

New recruit

One recent addition to the portfolio, Eclipx Group, provided a positive trading update at its investor day in September, confirming it was tracking to the top end of its previous guidance range and upgrading guidance to include a contribution from the recently acquired Grays business. Eclipx's core business is in corporate fleet management and financing. The company is leveraging its core capabilities and buying power to grow and diversify the business into synergistic areas within the consumer and commercial equipment finance segments. Eclipx has a high-quality, aligned management team with significant skin in the game and a strong track record. The company has a high proportion of recurring revenues and earnings visibility. We believe the scrip acquisition of Grays created an attractive entry point into the stock.

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ARE NEW ZEALAND SHARES OVERHEATING?

MONDAY 9 OCTOBER, 2017

Article by Liam Dann, originally published in the NZ Herald

Political uncertainty hasn't stopped the local sharemarket, which rose again today to hit a new record.

But there is now a risk that local shares are overvalued, says Pie Funds head of research Mark Devcich.

The NZX-50 is now valued at price to earnings multiple of 22 compared to US markets where the average is about 18 and Australia where it is 16 times, he says.

The kiwi market was looking "very expensive," Devcich says on the latest of Market Watch.

The NZX-50 index has risen for each of the past nine months, the second longest winning streak in the Bull run which began in 2009.

Overseas investors have been attracted to New Zealand's relatively high yielding companies, but as interest rates around the world start to rise we could see pressure going on the New Zealand market.

Meanwhile, the coalition talks haven't rattled investors new Government policies around immigration and housing could cause concern and put downward pressure on some stocks, Devcich said.

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COME SEE US AT THE HAWKE'S BAY A&P SHOW: AGRICULTURAL HUB

MONDAY 9 OCTOBER, 2017



HAWKE'S BAY ROYAL A&P SHOW

WE'LL BE THERE

19 and 20 October

If you're heading to the Hawke's Bay Showgrounds
for the Royal A&P Show, come visit us in the
Agricultural Hub.

