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FIVE OCEANS ASSET MANAGEMENT

Five Oceans Wholesale World Fund

Fund report and commentary – 30 September 2009

Performance

	3 month (%)	6 months (%)	1 year (%)	2 years (%)	3 years (%)p.a	Inception[1] (%) p.a
Fund return (gross)^	11.60	13.83	1.34	-2.22	2.13	2.26
Fund return (net)[#]	**11.26**	**13.14**	**0.08**	**-3.53**	**0.62**	**0.78**
MSCI Unhedged $A	7.70	12.04	-12.08	-14.35	-9.03	-7.38
Difference	**+3.56**	**+1.10**	**+12.16**	**+10.82**	**+9.65**	**+8.16**

[1]Inception date: 3 July 2006.
^Gross returns assume the reinvestment of distributions and exclude the impact of ongoing management fees. No allowance is made for tax.
[#]Net fund returns are calculated after fees have been deducted, assuming reinvestment of distributions. No allowance is made for tax.
Past performance is not a reliable indicator of future performance.

Market Review

The one way traffic in equities, that commenced in March, continued through the September quarter assisting investors erase more of the bad memories from 2008. Confidence in a recovery, that is more than just "greenshoots", continued as extremely low interest rates and an improving global outlook combined to encourage investors back into stocks.

The S&P 500 finished the quarter up 14.9%, the UK FTSE 100 up 20.8% with the Japanese Nikkei lagging, up only marginally at 1.76%. The Australian dollar continued its upward trajectory, ending the quarter at 88 cents to the USD.

Fund Performance

The fund was up 11.2% for the quarter which compares to the average move of global equity markets, as measured by the MSCI World Index in $A, which was up 7.7%. We commenced the quarter with a net exposure to equities of 79% and ended the period with our exposure above 90%.

The fund benefited from strong stock selection during the quarter specifically, KB Financial in Korea, PPR SA in France and European Financial Services companies in Prudential PLC and AXA SA. There were few portfolio detractors during such a strong quarter with Ericsson and Mitsubishi UFJ being the main laggards.

Portfolio Positioning and Strategy

Our bottom up company analysis continues to drive sector and portfolio positioning. We have significant sector exposure to the Consumer Discretionary, Energy, Financials and Technology sectors currently.

Our strategy is to continue monitoring the range of possible system level outcomes, whilst owning a range of businesses that we believe have attractive prospects relative to the price we are prepared to pay for them. We see stock selection beginning to re-assert itself after an extended period dominated by the macro economy during the crisis. Our overall levels of hedging are now lower than earlier in the year and through 2008, with our hedging being predominantly tailored to individual companies as compared to protecting the overall portfolio.

We incorporate analysis into environmental, social and corporate governance (ESG) factors in our company research which we believe is important to both manage company risk and understand future opportunities. We identified problems with the banking sector prior to the crisis and believe many of the issues affecting financial companies in the past few years could have been avoided with a stronger governance approach especially in the area of executive remuneration.

We introduced new positions in Sky Deutschland, Reed Elsevier, Jardine Matheson and Samsung Electronics during the quarter while exiting Nintendo, Hutchison Whampoa, Fugro and Aberdeen Asset Management.

We are less interested in making calls on defensive sectors versus cyclical sectors, focussing rather on good business franchises. This further reinforces our belief that essential insights will be derived at the company level in these uncertain times, even with respect to the unfolding of the global macroeconomic environment.

Asia

During the quarter concerns over the welfare of the Chinese economy, as measured by its stock market, had become front and centre on investor's minds. The Shanghai Composite registered the much fabled 20% fall, which qualifies as a bear market, in the space of ten trading sessions in August. This dramatic fall, in a developed market context, prompted investors globally to pay much greater attention to the day to day swings in the Chinese market. This is understandable as China is the World's dominant growth engine and its stimulus a crucial factor in turning the global economy around.

Towards the end of the quarter investors appeared to have become de-sensitised to the large moves in the Chinese market. In particular as better than expected German investor confidence and expanding Purchasing Managers Indices for both France and Germany gave investors increased confidence that recovery was taking hold.

During the quarter we initiated a position in Singapore based Jardine Matheson, as it represents a strong portfolio of businesses with a defensive earnings profile, primarily related to Asian regional consumption. Jardine is very much a "pure-play" Asian conglomerate, with the Mandarin-Oriental hotel chain, the only large Jardine business with a significant percentage of its earnings earned outside of Asia. Jardine's most important businesses, Dairy Farm, Astra, and Hong Kong Land, earn all their money from Asian markets.

For example, Dairy Farm is a pan-regional food retailer and Astra, a diversified industrial business, is in the growing Indonesian economy. These are quality domestic assets with low financial risk. The Jardine Matheson shares are trading on a material discount to our assessment of their net asset value.

We also added a position in Korean company, Samsung Electronics, as we believe that its key semiconductor business is in the early stages of a strong earnings recovery. We expect both the DRAM and NAND markets to move into a position where demand will improve with improving PC and Smartphone product cycles, at a time when supply in both industries has been curtailed by capital expenditure cuts. Samsung remains the market leader and the lowest cost producer in both DRAM and NAND. We hold the preference shares which trade at an attractive 35% discount to the common share for the same economic interest but without any voting rights.

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Energy and Minerals

Commodities momentum stalled in September after eight successive months of sequential gains. Copper fell 4%, oil was flat as we entered a demand "airpocket" globally. Chinese demand had driven prices and expectations sharply higher through 2009, however August import statistics highlighted that a transitory inventory build had commenced and apparent demand was easing. This was largely expected and the market focus shifted to when OECD nations would begin their restocking phase and thus dovetail with Chinese consumption.

The associated inventory build-up in metals and bulk commodities is now weighing on the market's mind. The exception was US coal and gas market which recorded large positive sentiment swings, consistent with the market's evolving confidence that the troughs had passed. These sub markets had previously lagged the overall, China driven, commodities markets. Operationally leveraged companies in this sector benefited substantially through the September quarter.

Consistent with these outcomes we took profits on our steel and mining positions, specifically Rio Tinto, Acerinox, Arcelor Mittal and Iluka Resources. Portfolio holdings in Baker Hughes, Devon Energy and Noble Corp, in the US focused energy space, were some of our strongest performers for the quarter.

Financials

Financials performed strongly during the quarter with all major regions, except Japan, up approximately 25-30%. This rally was driven by better than expected second quarter results, generally optimistic comments from bank management on consumer credit costs in the US and improving economic data globally. These factors were enough for investors to begin considering financials on a normalized earnings basis, which even on a conservative view, generally show current prices to be attractive.

Notwithstanding this, significant risks still remain, particularly in the US, where the commercial real estate markets have not yet shown any signs of stabilisation, although for large banks this is not a life threatening issue. We are however concerned about the ongoing impact on smaller regional bank failures on the broader economy.

Emerging market banks have continued to perform extraordinarily well and credit costs have stabilised at much lower levels than anybody would have assumed going into this crisis. However this fact along with the obvious long term potential growth in many of these markets is widely recognised and we continue to see better, though not exclusive, value in the developed world.

Early in the quarter, we added to our bank positions in Wells Fargo, US Bancorp and Barclays. We also added to KB Financial in Korea and initiated a position in Bangkok Bank. For both banks we see an under appreciation of long term earnings power. We exited Standard Chartered and China Construction Bank at levels which we considered fully valued.

The funds insurance holdings, Prudential Plc, AXA and ING, all contributed strongly over the quarter. We believe that the sector remains very attractively valued but out of favour with investors concerned about the opacity of earnings and balance sheet write-downs. We believe that while the market is beginning to look at valuing banks on normalised earnings, it is yet do the same for life insurers and we continue to see value in the sector. We like the strong life insurance and asset management franchises of the funds top two insurance holdings, AXA SA and Prudential Plc, particularly in Asia.

Technology

Technology continued to shine in the last quarter, being supported by growth from emerging markets as well as traditional seasonal factors such as the northern hemisphere back to school period. Initial surveys point to consumers giving more wallet share to electronics, with electronics being the only sector to have positive year on year sales growth in the US. Global sales of computers, mobile phones and television have all exceeded market expectations.

Apple remains a core holding and has performed well in the last quarter. Distribution agreements for the iPhone within China were announced as well as sales agreements with multiple operators in markets such as the UK and Canada.

Healthcare

Health care continues to be a very out of favour sector with the market worried about patent expiries and the impact of US government health reform. The US market represents over half of global spending on healthcare and is a very important source of earnings for many companies but we believe concerns over reform are overdone. Numerous stocks in the sector are trading at their lowest valuation multiples since the 1994 healthcare reform.

Our holdings in the sector continued to be volatile in the month. US global medical technology company, Kinetic Concepts, performed strongly in the month after upbeat conference presentations and an announcement that it expected to gain the long awaited regulatory approval in Japan for its innovative V.A.C wound care therapy. The fund's US health insurance holdings were weaker in the month on renewed talk of a government sponsored health insurer.

Varian, the global leader in oncology equipment, performed strongly in the quarter after upgrading its full year outlook. The company has been affected by a pullback in capital equipment budgets at its hospital customer base, as well as concerns over the proposed reduction in Medicare reimbursement rates for radiotherapy and radiosurgery at freestanding clinics in the US, which represent about 10% of Oncology Systems business. We expect the environment to improve as there is more clarity on US healthcare reform and reimbursement rates. The company has a cash rich balance sheet and remains very attractively valued.

Consumer

Consumer Discretionary holdings continued to perform well in the quarter and we continue to hold large positions in long time holdings, including Coach and Inditex. We trimmed positions in UK retailer Next and automaker BMW, as they approached our price targets, and replaced with new positions in the media sector, including Sky Deutschland and Reed Elsevier.

Industrials

The fund initiated a position in General Electric early in the quarter. GE was trading at very low valuation multiples and while there is still considerable uncertainty over the size of losses at GE's finance business, GE Capital Services, we believed the market was pricing in a very adverse outcome. GE reprices about one third of its loan portfolio each year and new loan terms are more attractive. GE's industrial businesses are exceptional franchises and strong cash flow in these businesses should help reduce debt.

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Fund report and commentary – 30 September 2009

Top five long positions

	Region	Sector	Weight (%)
Devon Energy Corp	North America	Energy	3.94
Procter & Gamble Co	North America	Consumer Staples	2.63
Wells Fargo & Co	North America	Financials	4.00
Johnson & Johnson	North America	Health Care	2.32
AXA SA	Eurozone	Financials	2.32

Regional exposures

Region	Long (%)	Short (%)	Net weight* (%)
Asia ex Japan	3.20	-0.31	2.89
Emerging Markets	2.82	0.00	2.82
Eurozone	20.64	0.00	20.64
Ex-Eurozone	1.38	-0.53	0.85
Japan	1.57	0.00	1.57
North America	55.88	-4.52	51.36
Pacific	0.00	-0.48	-0.48
United Kingdom	13.13	-1.33	11.80
Grand Total	**98.62**	**-7.17**	**91.45**

Sector exposure summary

Sector Name	Long (%)	Short (%)	Net weight* (%)
Consumer Discretionary	17.04	-2.82	14.22
Consumer Staples	7.68	0.00	7.68
Energy	13.72	-1.59	12.13
Financials	19.92	-1.04	18.88
Health Care	11.13	0.00	11.13
Industrials	6.30	0.00	6.30
Information Technology	13.14	-0.08	13.06
Materials	3.73	-0.98	2.75
Telecoms	3.61	0.00	3.61
Utilities	0.00	0.00	0.00
Derivatives	2.35	-0.66	1.69
Grand Total	**98.62**	**-7.17**	**91.45**

Portfolio exposure summary

	Weight (%)
Long positions	98.62
Short positions	-7.17
Net equity exposure#	91.45
Gross equity exposure^	105.79

Currency summary exposure

	Weight (%)
AUD	48.31
GBP	7.70
USD	23.91
EUR	13.80
JPY	4.74
Other	1.55
Grand Total	**100.00**

*May not add to 100% due to rounding.

#Net equity exposure is the net equity exposure of the portfolio after short equity positions are deducted from long equity positions. ^Gross weight is the percentage of the gross equity exposure of the portfolio. Gross equity exposure is the total of the long and short equity positions in the portfolio.