Five Oceans World Fund – Wholesale Class

Fund Report and Commentary – 30 September 2008

Performance - 30 September 2008	1 month (%)	3 months (%)	6 months (%)	1 year (%)	2 years (%)	Inception[1] (%)
Fund Return Gross ^	-0.17	12.21	1.75	-5.65	2.52	2.68
Fund Return Net #	-0.27	11.87	1.12	-7.01	1.24	1.09
MSCI World Index (Unhedged $A)	-3.81	3.10	-3.56	-17.03	-7.95	-5.69
Difference	3.54	8.77	4.68	10.02	9.19	6.78

[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.
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Market Review

The month of September marked the start of the panic that reached a crescendo in the first two weeks of October. The global credit crunch which has been rolling along for over a year now, chipping away at confidence, and bringing markets lower in a "somewhat" controlled fashion, took a turn for the worst in September as the failure of numerous major financial institutions, including AIG and Lehman Brothers, led to chaos and panic across financial markets. The global financial system, the lifeblood of the economy and broad industry, ground to a halt as banks refused to lend to each other or indeed to companies or businesses. At one point the state of California was unable to raise short-term finance to pay its employees.

Notwithstanding that Lehman was allowed to fail, a major mistake in our view, most troubled institutions have now been provided a life-line, (AIG, Freddie Mac, Fannie Mae, Merrill Lynch, Royal Bank of Scotland, HBOS and Morgan Stanley), and as we write this report mid October it appears that, after concerted and co-ordinated global efforts by central banks and governments, the financial system is finally starting to show signs of stabilisation.

Our view is that the market is probably starting to bottom now although this process could take another twelve months and no doubt the global economy will get worse before its gets better. One has to distinguish here between financial markets and the real economy. As is always the case, share markets will look through the despair to a recovery, and pre-empt this by rallying well before the proverbial "man on the street" is feeling any economic upturn.

For the quarter, the US market (S&P 500) was down 8.8%, Japan (Nikkei) down 16.5% with Europe (Eurostoxx 50) falling over 9%, in local market terms. The Australian dollar fell over 17% versus the Yen and the US Dollar, mitigating market falls for international funds, priced in Australian dollars, holding foreign currency.

The swing in the oil price over the quarter marked a boil over in Global Financial markets. Oil peaked in the 145-150 range and finished the September quarter at around the $100 per barrel, but in the turmoil of early October has moved 20% lower again to the $80 level providing some respite to a rapidly slowing global economy.

In addition, to the major swing in the oil price, the US dollar (USD) reasserted itself after some years in the wilderness as the preferred currency of choice. The greenback appears to have bottomed versus the Euro, and the Australian dollar (AUD) has come under significant pressure falling around 18% versus the US dollar in September on the expectation of falling interest rates and commodity prices..

Fund Performance

The fund was up 11.8% for the quarter giving a calendar year to date return of -4.6% versus the market which has fallen -15.6% since January, as measured by the MSCI World index in A$. We finished the quarter with a portfolio that had net exposure to equity markets of approximately 60%, well below where we would see positioning in a more favourable market environment.

There were a combination of factors that assisted performance during the quarter. Our stock hedging and currency positioning, slanted to the Yen, US Dollar and Euro, were major contributors, as were specific stock decisions. Overall, minimal exposure to energy and materials has helped the portfolio avoid one major problem area in this decelerating global growth environment. Our exposure to consumer stocks also helped performance as this sector proved to be a relative safe haven during the quarter, especially as the oil price retreated. Brazilian stock Natura Cosmetics, British publisher Bloomsbury and Carrefour in France, all performed well. Healthcare was a defensive sector that provided some relief as well and long term portfolio holdings Varian Medical Systems, Johnson and Johnson and Glaxo SmithKline out-performed.

The main detractors were in minerals and energy holdings, Alumina, TGS Nopec and Fugro.

Portfolio Positioning and Strategy

The turmoil of the past six weeks has clearly signalled to all and sundry "that all is not well in the state of Denmark" (or Iceland!) to steal a line from Shakespeare. Evidence is now clearly supporting a global slowdown and the recent financial turmoil, prior to the co-ordinated bailouts, gave pause to reflect on the potential for a much worse scenario. As has been seen recently by the concerted move of central banks to lower rates and unblock the financial sector paralysis, recessionary fears now comprehensively overwhelm inflationary concerns.

Notwithstanding this, we believe the events of early October have most probably signaled the start of a bottoming formation for markets and we have commenced increasing our equity weightings given that shares are trading at historically low valuations, and that the government and central bank action taken to shore-up the global finance sector will help provide a floor for markets.

Energy and Minerals

High oil prices operate like an interest rate in monetary policy, as the determinant of activity levels through an energy multiplier, with OPEC as its central bank. Recently, the market was testing the level at which oil prices would need to go to in order to trigger the requisite demand destruction. You could almost hear a collective scream on the brake as those prices peaked around $140 - $150 providing one catalyst for the car of the global economy to skid off the road. With oil now back around the $80 level we feel this will provide some well needed respite to the sagging global economy.

Although we have avoided the major mineral and energy companies for most of the calendar year, we have marginally increased our exposure into the opportunity represented by the sectors weakness. We remain cautious regarding the extent of the global slowdown, and so have taken tentative steps but remain convinced of the underlying story.

We have re-visited some quality plays in the energy sector given our view that the oil price, notwithstanding volatility, will remain at elevated levels as compared to previous historic prices. Devon Energy, a North American focussed oil and gas producer, fell materially as profit taking and eroding commodity prices provided headwinds. We took advantage of this price action to purchase a core position in a quality franchise delivering growth, significant exploration upside, top tier assets and good quality management. We have also recently re-initiated a position in Rio Tinto through long dated call options that create exposure to any upward move while limiting risk. We believe that the major miners are looking very attractive at current levels notwithstanding the global slowdown as we feel the long-term demand/supply balance is still in their favour.

Financials

With regard to financials, we have increased our exposure over the past couple of months, albeit from close to a zero weighting. Despite the bounce in the financials post their July lows, we remained concerned that there would be additional structured credit write-downs on top of the normal credit cycle, and this has manifested itself in the last month leading to the recent unprecedented cocktail of bailout measures announced around the globe.

We continue to seek out areas of value and feel that ultimately there will be attractive opportunities. From almost no financial exposure entering July we have added to our positions in French insurer AXA and Japanese bank, Mitsubishi UFJ Financial Group, as well as introducing a position in US bank KeyCorp. We also added to European and US bank exposure through diversified sector baskets.

Consumer

The Consumer Discretionary sector has been an out of favour area for sometime. It has been trading on historically cheap multiples as consumers globally have been hit by a combination of high oil prices, falling home prices and slowing economies, especially in the US. We have gradually built a position in this unloved sector over the past nine months targeting strong brand names, and have benefited from a sharp rebound in stock performance as the oil price has dropped and investors start to look through the current malaise to the future.

German car maker BMW, US leather goods company Coach, Bloomsbury Publishing in the UK, which publishes the Harry Potter books, and Spanish retailer Inditex, owner of the Zara clothing chain, have all been strong performers in recent times. Additionally, we added to the consumer staples area through the quarter introducing US consumer products company, Proctor & Gamble and Swiss based Nestle.

Technology

Technology has also been a strong contributor to recent portfolio performance. IT spending has been somewhat protected from the global downturn to date as there are a series of required investment and infrastructure initiatives that continue to be pursued globally, for example in the telecom sector where the secular move from fixed line to mobile broadband, and all its improved functionality, continues unabated. Companies with strong cash flows that are positioned to benefit from these trends include French company ST Microelectronics, and US based Cisco Systems and Intel.

Currency

From a currency position we have strategically adjusted portfolio positioning gradually over the past year from being significantly hedged back to Australian dollars (AUD), over 80% at the end of June 2007, to a largely unhedged portfolio currently, with an AUD positioning below 20%.

When the first signs of the sub-prime crisis emerged, over a year ago now, we felt that the AUD would come under pressure given our expectation that the global economy would slow. In fact the AUD until recently has been extremely resilient but more recently it has come under pressure, as we expected, and been one of the worst performing currencies globally through the quarter, given the Aussie dollar is seen as a proxy for global growth. Additionally, the Reserve Bank of Australia has now commenced its easing cycle with a 25basis points cut announced in early September, followed by a full 1% more recently. This has eroded some yield support for the AUD and reduced its “carry-trade” attractiveness. Moreover, it is our belief that the USD, after a long period of weakness, has bottomed, and this has been the major beneficiary of our reduced AUD exposure. Our currency positioning has benefited the portfolio.

During the market turmoil, we continue to seek out quality franchises at attractive valuations that we believe will add value over the longer term. Our market view means we will add to these favoured positions in a cautious way. Despite having our highest market exposure currently for calendar 2008 we still remain appropriately cautious.

Top Five Long Positions

	Region	Sector	Weight (%)
AXA SA	France	Financials	3.34
Intel Corp	United States	Information Technologies	2.88
Financial Select Sector SPDR Fund	United States	Financials	2.63
SAP AG	Germany	Information Technologies	2.93
Amdocs Ltd	United States	Information Technologies	2.41

COUNTRY EXPOSURE SUMMARY

Country Name	Long	Short	Net
Australia	2.63%	-1.29%	1.35%
Brazil	1.06%	-0.40%	0.65%
Canada	1.46%	0.00%	1.46%
Finland	0.62%	0.00%	0.62%
France	8.39%	0.00%	8.39%
Germany	5.78%	-0.40%	5.38%
Hong Kong	0.39%	0.00%	0.39%
Ireland	0.46%	0.00%	0.46%
Japan	2.75%	0.00%	2.75%
Korea	0.00%	-0.61%	-0.61%
Netherlands	4.25%	-0.72%	3.53%
Norway	0.89%	0.00%	0.89%
Spain	2.79%	0.00%	2.79%
Sweden	0.42%	0.00%	0.42%
United Kingdom	11.22%	-8.18%	3.04%
United States	38.77%	-15.05%	23.71%
South Africa	0.74%	0.00%	0.74%
Switzerland	0.50%	0.00%	0.50%
Grand Total	83.11%	-26.65%	56.46%

SECTOR EXPOSURE SUMMARY

Sector Name	Long	Short	Net
Consumer Discretionary	15.24%	-2.16%	13.08%
Consumer Staples	6.49%	-1.07%	5.43%
Energy	6.49%	-0.93%	5.57%
Financials	13.64%	-0.56%	13.08%
Health Care	9.09%	0.00%	9.09%
Industrials	7.30%	-4.31%	2.99%
Information Technology	13.82%	-1.90%	11.92%
Materials	5.70%	-0.40%	5.30%
Sector/Market Hedges	0.00%	-14.72%	-14.72%
Telecommunication Services	5.33%	0.00%	5.33%
Utilities	0.00%	-0.61%	-0.61%
Grand Total	83.11%	-26.65%	56.46%

Portfolio Exposure Summary

	Weight (%)
Long positions	83.11
Short positions	-26.65
Net equity exposure★	56.46
Gross equity exposure▲	109.76

Currency Summary Exposure

	Weight (%)
AUD	15.17
GBP	0.15
USD	49.99
EUR	20.12
JPY	14.50
Other	0.07
Grand Total	**100%**

*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.