

Friday, 18 August 2006

## MARKET ANNOUNCEMENT

### Investment Manager's Report for 30 June 2006

Attached is a 30 June 2006 report from FSP Equities Management Limited on the performance of its FSP Equities Leaders' Fund (FSP Fund).

As of 30 June 2006, the Company has a total of \$16.86 million (90% of the Company's net assets) invested in the FSP Fund under the management of FSP Equities Management Limited.

The 12 month net performance of the FSP Fund to 30 June 2006 was 25.1%. The benchmark performance (S&P/ASX 200 Accumulation Index) was 23.9%.

#### About the FSP Fund <sup>1</sup>

The FSP Fund is a wholesale fund not open to retail investors. The investment management team is led by Mr Ronni Chalmers. The objective of the fund is to outperform the S&P/ASX 200 Accumulation Index over the medium term. There is no minimum equity weighting with the equity weighting as at 30 June 2006 being 100%.

75% of the equity portfolio is targeted to companies contained within the S&P/ASX 200 index. The remaining 25% of the portfolio is invested in companies outside of the S&P/ASX 200 index. The equity portfolio contains approximately 100 holdings. The Investment Manager is "style neutral" and invests in growth stocks, value stocks, stocks with maintainable dividend yields and special situations.

Since the fund commenced in April 2002, the net return per annum has been 19.8% which compares with the S&P/ASX 200 Accumulation return of 14.9%

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#### For further information:

Farooq Khan  
Chairman  
T | 1300 762 678  
E | [fkhan@scarboroughequities.com.au](mailto:fkhan@scarboroughequities.com.au)

Christopher Ryan  
Director  
T | (02) 9363 5088  
E | [c.ryan@westchester.com.au](mailto:c.ryan@westchester.com.au)

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<sup>1</sup> Based on information provided by the Investment Manager, FSP Equities Management Limited.

ABN 58 061 287 045

#### Registered Office:

Suite 202, Angela House  
30-36 Bay Street  
Double Bay New South Wales 2028  
T | (02) 9363 5088  
F | (02) 9363 5488  
E | [info@scarboroughequities.com.au](mailto:info@scarboroughequities.com.au)  
W | [www.scarboroughequities.com.au](http://www.scarboroughequities.com.au)

ASX Code: SCB



#### Company Secretarial Office:

Level 14, The Forrest Centre  
221 St Georges Terrace  
Perth, Western Australia 6000  
Local T | 1300 762 678  
T | (08) 9214 9717  
F | (08) 9322 1515  
E | [vho@scarboroughequities.com.au](mailto:vho@scarboroughequities.com.au)

15 August 2006

The Directors of Scarborough Equities Limited  
Suite 202  
30-36 Bay Street  
Double Bay  
NSW 2028

### **Fund Performance**

During the June quarter the Australian equity market posted a negative quarter following thirteen consecutive positive quarterly returns. We are pleased to report a positive result in this period of 1.28%.

For the twelve months ending 30<sup>th</sup> June 2006, our Fund recorded its third consecutive annual return in excess of twenty percent, with a net result of 25.1%. This result compared favourably with our benchmark, the S&P/ASX 200 Accumulation Index, which returned 23.9%.

### **General Market Overview**

Once again the Australian equity market achieved superior returns compared to many overseas equity markets. For the twelve months to June 2006, the Australian stock market has outperformed the global stock market return as measured by Morgan Stanley Capital International Index (MSCI) for the sixth consecutive year.

For the year ending June 2006, the Dow Jones returned 8.5%. Over the same period, the FTSE 100 returned 14.1%, the German stock market (DAX 30) 23.8%, while the French stock market (CAC 40) gained 17.4%.

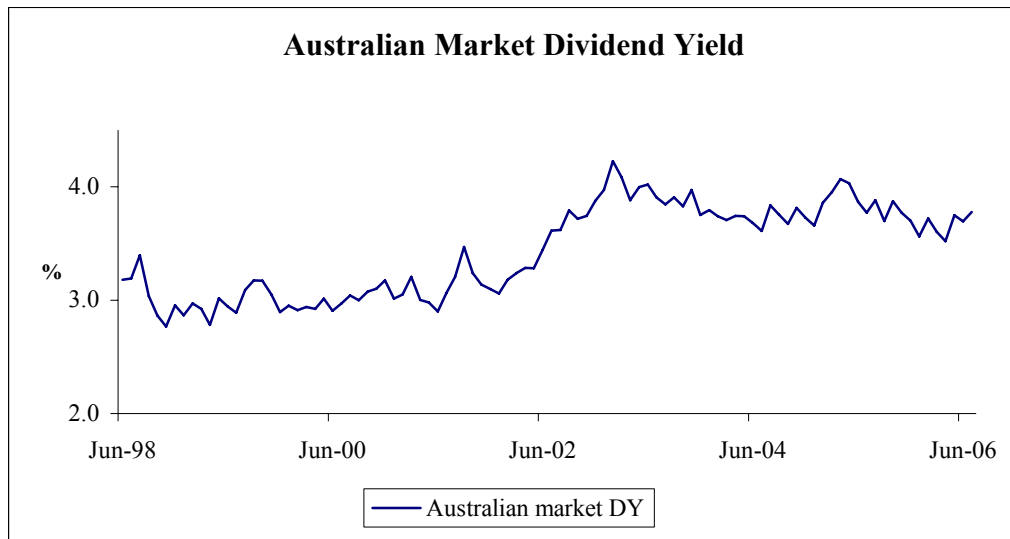
The only major stock market to outperform the Australian market was the Japanese equity market, which advanced by 33.8%.

### **Australian Market**

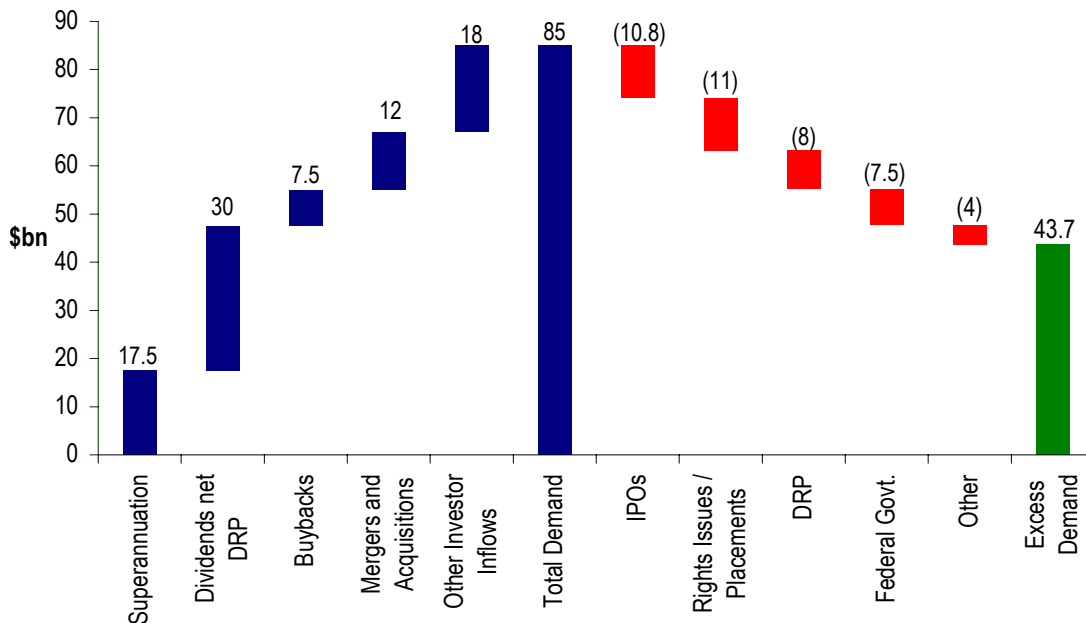
The Australian equity market is currently trading at around 15 times the forecast June 2007 earnings. We have commented previously that this is not an excessive level compared to the previous peak, which was 20 times forecast earnings in 1999 and 2000.

Currently the Australian market is trading on a dividend yield of 3.8%. When adjusted for franking credits and the tax deferral nature of some property trusts and infrastructure stocks, this equates to a pre-tax yield of over 5%.

As can be seen on the graph below, supplied by UBS, the Australian market is currently trading on a higher dividend yield than 5 years ago.



The Australian equity market is currently faced with a positive demand/supply equation. The graph below contains data supplied by UBS and Macquarie Bank. It shows an excess demand of \$43billion. In the month of July alone Adsteam Marine, Excel Coal and Colorado all received take over bids to the value of \$3billion. In the last two days Gasnet received a recommended bid of \$420m and Vision Systems has agreed to be taken over for \$451m. This brings the total value of mergers and acquisitions in the first six weeks of this financial year to just over \$4billion. Interestingly four out of the five companies bidding for these Australian stocks are based off shore.



**FSP Equities Management**

ABN 12 098 327 809 AFS Licence No 246790

L34 Australia Square 264-278 George St Sydney NSW 2000

Tel: 02 9253 8500 Fax: 02 9253 8616 Web: [www.fspgroup.com.au](http://www.fspgroup.com.au) Email: [equities@fspgroup.com.au](mailto:equities@fspgroup.com.au)

## Top 20 Holdings as at 30 June 2006

ASX Code	Asset Name	% Weighting of fund	S&P/ASX 200 Weighting
NAB	National Australia Bank	6.9%	6.1
BNB	Babcock & Brown	4.5%	0.3
WDC	Westfield	3.6%	3.0
COH	Cochlear	3.6%	0.3
CML	Coles Myer	2.9%	1.4
BIL	Brambles Industries	2.8%	1.1
MBL	Macquarie Bank	2.7%	1.5
WES	Wesfarmers	2.5%	1.4
IAG	Insurance Australia Group	2.4%	0.9
TLS	Telstra	2.3%	2.4
QAN	Qantas Airways	1.9%	0.6
TEN	Ten Network Holdings	1.9%	0.1
TOL	Toll Holdings	1.9%	0.8
BOQ	Bank of Queensland	1.8%	0.1
BBI	Babcock & Brown Infrastructure	1.7%	0.2
AXA	AXA Asia Pacific	1.7%	0.6
ADB	Adelaide Bank	1.7%	0.1
PBL	Publishing and Broadcasting	1.6%	0.7
IPG	Investa Property Group	1.6%	0.4
SUN	Suncorp - Metway	1.6%	1.1
	<b>TOTAL</b>	<b>51.8%</b>	<b>23.1</b>

Since year-end we have sold our holdings in Telstra, Westfield and Investa Property Group.

### Outlook

The last three years have produced the following results

12 months net return to 30 June 2006 was 25.1%

12 months net return to 30 June 2005 was 24.9%

12 months net return to 30 June 2004 was 50.4%

Although we are not forecasting the start of a bear market, one should be cautious. In the year ending June 2007 it is unlikely that the Australian equity market will achieve returns above 20%.

By comparison, the Mandate of the Federal Government's Future Fund aims to achieve "An average return of at least the Consumer Price Index (CPI) plus 4.5 to 5.5 per annum over the long term". In the year just ended the CPI was 4%. This would mean that the Commonwealth Government's Future Fund would have achieved its benchmark with a 8.5-9.5% return.



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Thank you for your ongoing support

Yours sincerely



Ronni Chalmers  
Investment Director

**Important information and disclaimer:**

Please note that this fund is a wholesale fund and is not open to retail investors.

Performance is influenced by market volatility over time. Past performance is not necessarily indicative of future performance. Neither FSP Equities Management Pty Limited nor any related corporation guarantees the repayment of capital or the performance of the FSP Equities Leaders Fund. The contents of this report have been prepared without taking into account your individual objectives, financial situation or needs. Because of that, before acting you should consider the appropriateness of what is included here, having regard to your own objectives, financial situation and needs.

This report may include statements (including opinions) about particular financial products or classes of financial products in which the FSP Equities Leaders Fund is or has invested – these statements are not intended to influence any person in making a decision in relation to these financial products or classes of financial products and hence do not constitute financial product advice.

Performance calculations provided by White Outsourcing, a subsidiary of Moore Stephens Sydney, which is a member firm of Moore Stephens International Limited. The returns are net of all fees, pre-tax and assume DRP.



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