

AUSTRALIAN

RESEARCH

MANAGED INVESTMENTS ANALYSIS

Listed Managed Investments

September 2007 Quarterly Review

EXTRACT

Contents

This is an extract from the Listed Managed Investments September 2007 Quarterly Review

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Scarborough Equities Limited (SCB)



LMI Type	Investment Assets	Investment Area	Investment Sectors
Listed Investment Company	Listed Companies	Australia	Diversified

Company Details

SCB appointed FSP Equities Management Limited (*FSP*) as investment manager in December 2004. FSP commenced operations on 3 October 2001 via the launch of the FSP Equities Leaders' Fund and currently has around 190 wholesale clients. Since inception, the FSP Equities Leaders' Fund has consistently outperformed the S&P/ASX 200 Accumulation Index. The SCB portfolio consists of two components, being an investment of A\$22.2M in the FSP Equities Leaders' Fund and A\$4.3M invested in ASX-listed oil and gas company Drillsearch Energy Ltd (DLS).

Board

F Khan (Chairman), S Cato, W Johnson, C Ryan

Investment Philosophy

The FSP Equities Leaders' Fund that SCB invests into is based on the philosophy that equity markets can display inefficient pricing valuations in the short term that can allow an active investment style to benefit and ultimately outperform its relevant benchmark.

Style and Process

FSP focuses on publicly available information, combined with in-house research, to identify stocks with the goal of outperforming the S&P/ASX 200 Accumulation Index over the medium term. Around 75% of the equity portfolio is targeted at companies within the ASX 200 Index, with the remaining 25% invested in non-ASX 200 companies. The investment manager is 'style neutral' and invests in growth stocks, value stocks, stocks with maintainable dividend yields and special situations. The portfolio can be described as index-unaware and high conviction.

Investment Team

R Chalmers, BComm(Acc & Fin), ASIA: Investment Director; R Gregory, BComm(Hons) (Econ & Fin), Pgrad Dip FINSIA; J Harris, MA (Econ), Pgrad Dip (Econ), BSMath: Equities Analyst; V Cook, BA, LLB: Equities Analyst.

Aegis Comments

As an investment manager, FSP now has a five-year strong track record, during which it has continued to outperform the S&P/ASX 200 Acc. Index. The manager has built a high-quality portfolio with high conviction positions in the majority of its top 10 positions, such as BHP, WBC, HVN and BNB. SCB has outperformed its benchmark over the last 12 months, with pre-tax NTA (including dividends) increasing 36.99% compared to the benchmark return of 33.58%. Over the September quarter, SCB marginally underperformed its benchmark, with pre-tax NTA, including dividends, increasing 4.65% compared to the market's 5.48%. During the quarter, SCB became fully invested, further allowing the manager to take part in positive market momentum. The manager continues to trade at a substantial discount to pre-tax NTA, with the discount being 23.8% as at September end.

Key investment information



RATING	Recommended
Price (\$)	1.01
As at 19 Dec 2007	
Market Cap (\$M)	19.9
Shares On Issue (M)	19.7
Shares Traded (\$M p.a.)	2.4
12-month L/H (\$)	0.98/1.10
Listing Date	August 1994

Fees

Management Fee (%)	1.00
Performance Incentives* (%)	20.0

* Out-performance of S&P/ASX 200 Accumulation Index.

Pre-tax NTA Performance Analytics (including dividends)

	All Ords Acc	
	1 Yr	3 Yr (p.a.)
Excess Per. (%)	3.41	n/a
Beta	1.35	na
TE (%)	11.30	n/a
IR	0.30	n/a

Benchmark returns are purely pre-tax, whereas LIC returns incorporate realised capital gains tax and will understate portfolio performance.

Dividend Yield (%)

	FY05	FY06	FY07
	5.56pf	4.44pf	4.44pf

Substantial Shareholders (%)

Orion Equities Limited	28.6
Peter Simpson and Associates	19.9

As at 30 September 2007

Company contact

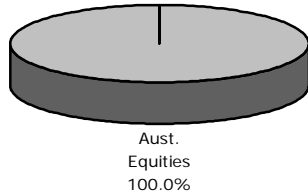


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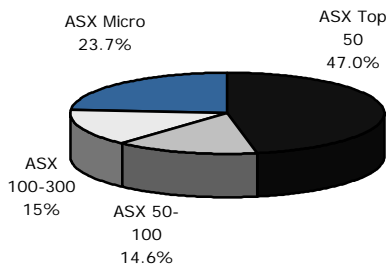
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Sector	Industry Group	Industry	Sub Industry
Financials	Diversified Financials	Diversified Financial Services	Other Diversified Financial Services

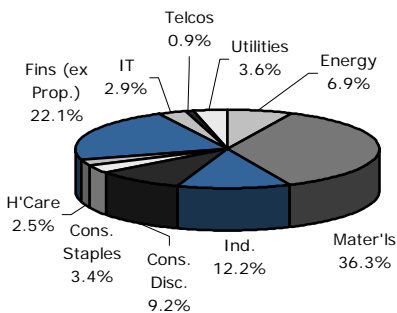
Asset Weighting



Size Weighting (Equities Component)



Sector Weighting (Equities Component)



Other Data

Options: None on issue.
Dividend policy: Distribute up to 50% of the available net profits through two distributions per year.
Capital management policy: n/a
LIC tax concessions: Not expected to qualify.
DRP available: Yes

SCB's Portfolio (Top 10)

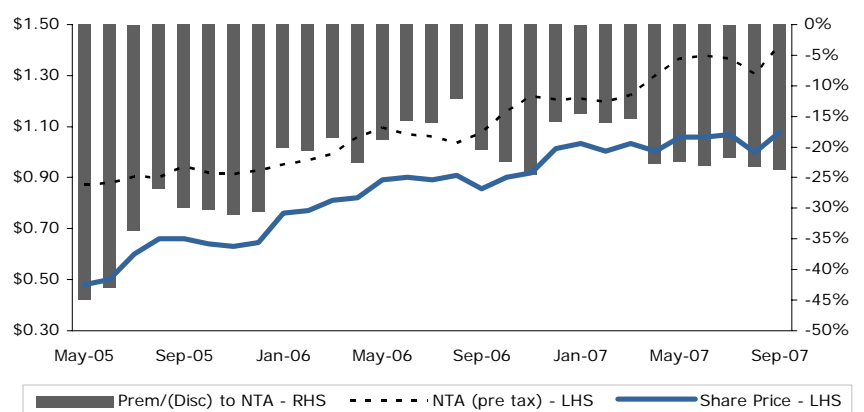
Code	Weighting		2008 Aegis Forecasts			Prem/Disc to Aegis Target (%)
	Portfolio (%)	S&P/ASX 200 (%)	PE (x)	Yield (%)	EPS Gth (%)	
DLS	18.2	na	na	na	na	na
BHP	17.3	11.5	13.4	1.9	17.9	(10.9)
WBC	7.1	4.1	13.6	5.2	10.8	(11.8)
NAB	4.5	5.0	13.2	5.0	11.5	(14.4)
WPL	3.8	1.7	18.7	3.2	65.2	(16.3)
BNB	3.3	0.5	13.1	2.3	22.0	(26.6)
HVN	2.8	0.3	19.3	2.0	25.7	(14.6)
RIO	2.4	2.4	10.9	1.2	36.1	(27.9)
TSE	2.4	0.1	21.4	3.3	103.6	(3.0)
CGJ	2.1	1.3	na	na	na	na
Total	64.0	27.0	14.5	2.9	26.6	

Tax Based Returns on Share Price and Dividends

	Fund		All Ords Acc	
	1Yr Rtn (%)	3Yr Ann (%)	1Yr Rtn (%)	3Yr Ann (%)
No Tax (0%)	35.2	na	35.1	27.9
Super Fund (15%)	33.9	na	34.1	26.9
AWOTE* (31.5%)	32.4	na	33.1	25.9
Max Tax Rate (46.5%)	31.0	na	32.0	24.8

* Marginal Tax Rate for worker on the Average Wage OTE rate + Annualised

NTA Performance



Source all figures: SCB/FSP Equities Management Limited/ Aegis Equities Research/IRESS

All data as at 30 September 2007 unless otherwise specified



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