Monday, 28 April 2008

MARKET ANNOUNCEMENT

Investment Manager's March 2008 Report

The Company is pleased to enclose a March 2008 report from FSP Equities Management Limited (**FSP**) on the performance of its FSP Equities Leaders Fund (**FSP Fund**).

About the FSP Fund[1]

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 31 December 2007 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 as at 31 December 2007. The Investment Manager is "style neutral" and invests in growth stocks, value stocks, stocks with maintainable dividend yields and special situations.

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1 Based on advice received from FSP Equities Management Limited

Client Newsletter
FSP Equities Leaders Fund
March Quarter 2008

FSP equities management

23 April 2008

The Directors of Scarborough Equities Limited
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Double Bay, NSW 2028

Fund Performance

For the 12 months to March 31st 2008 the FSP Australian Equities Leaders Fund recorded a net return of negative 6.4%. Over the same period the Fund's benchmark, the S&P/ASX 200 Accumulation Index, returned negative 7.0%. This represents an outperformance of 0.6% for the period. Returns from Australian equities compared favourably to both the FTSE 100 (-9.6%) and Nikkei 225 (-27.6%), whilst the Dow Jones fell only 0.7% over the 12 months.

For the 3 months to March 31st 2008 the Fund's net return was negative 16.8%, which compared to the return for the S&P/ASX 200 Accumulation Index of negative 14.4%. This quarterly return was the worst for the Australian market since the December quarter of 1987.

Over the 5 year period to March 31st 2008 the FSP Australian Equities Leaders Fund has delivered an annualised return of 25.6% net per annum. For comparison, the Fund's benchmark returned 18.0% annualised over this period, which represents 7.6% annualised outperformance. This also compares favourably with the 5 year annualised return for the MSCI World Index, which was 13.9% over the same period.

Performance History †

	Fund Net Return	Benchmark*	Value Added
1 year to March 31 2008	-6.4%	-7.0%	0.6%
2 years annualised	12.2%	6.4%	5.8%
3 years annualised	16.1%	13.8%	2.2%
4 years annualised	18.2%	16.7%	1.5%
5 years annualised	25.6%	18.0%	7.6%
Since Inception**	17.9%	12.7%	5.1%

* S&P/ASX 200 Accumulation Index **Annualised. Inception date 9th April 2002.

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD	ASX 200 Accm	Value Added
2008	-12.3	0.2	-5.4										-16.8	-14.4	-2.4
2007	3.6	0.2	3.9	4.5	2.7	2.3	-0.2	-3.2	8.7	5.0	-3.7	-3.6	21.4%	16.1%	5.3%
2006	1.2	3.2	3.9	4.4	-2.9	0.0	-0.3	2.9	4.8	6.1	3.3	4.6	35.5%	24.6%	11.3%
2005	0.8	0.7	-0.9	-3.8	2.5	1.9	5.5	2.1	4.7	-3.4	2.2	2.2	15.1%	22.8%	-7.7%
2004	0.9	2.3	2.7	-2.8	0.6	2.6	2.1	2.3	3.9	6.3	5.4	1.5	31.2%	28.0%	3.2%
2003	-2.2	-6.9	0.4	4.6	-1.8	4.0	7.5	11.2	6.7	6.9	-1.4	5.4	38.3%	14.6%	23.7%
2002				0.7	1.2	-2.2	-4.0	2.6	-4.4	1.1	-0.6	-0.9	-6.5%	-8.1%	1.6%

Market Update

Since our last newsletter, in early February, Australian corporates reported their profit results for the half year to 31 December 2007, with earnings growth ex-resources coming in at a robust 12.8%[1]. Several factors, namely cost pressures and reduced credit availability, slowing global growth and a contractionary monetary policy, will have a moderating effect on corporate profit growth going forward. However, the domestic economy continues to benefit from low unemployment and the positive stimuli of strong mineral resources demand from developing Asia and significant planned infrastructure investment. The Reserve Bank of Australia recently noted its expectation for a further rise this year, of 10 - 15%, in Australia's terms of trade, driven in particular by the expected increase in the contract prices for coal and iron ore. BHP confirmed on 9th April that it had secured price increases of between 206% and 240% in a significant portion of its 2008 hard coking coal contracts, while iron ore price negotiations continue following Vale's agreed 71% increase. The Reserve Bank estimates that this increase in the terms of trade will add 2 to 3% to Australia's national income over the next year or so.

The Reserve Bank of Australia again raised official interest rates in March, to 7.25%, citing the need for domestic demand growth, which has outstripped growth in productive capacity, to come back to a more sustainable pace. At its meeting in early April, the bank noted evidence that demand growth is now in the process of moderating, and consequently kept rates on hold for the time being.

In the context of the global economy, Australia continues to be well placed, as it enjoys the strong demand for mineral resources from the developing countries, and in particular from the significant urbanisation occurring within China. Earlier this month the International Monetary Fund released a report on the outlook for the global economy, including its forecasts for real GDP growth. These projections are summarised in the table below, and we note Australia's strong position across each of the time periods considered. Of the major developed economies ex-Asia, Australia has the highest forecast growth over the next two years.

	2007	**2008e**	**2009e**	**2013e**
Australia	**3.9**	**3.2**	**3.1**	**3.5**
Japan	**2.1**	**1.4**	**1.5**	**1.7**
Developing Asia	**9.7**	**8.2**	**8.4**	**8.9**
of which:				
China	11.4	9.3	9.5	10.0
India	9.2	7.9	8.0	8.0
United States	**2.2**	**0.5**	**0.6**	**3.2**
United Kingdom	**3.1**	**1.6**	**1.6**	**2.7**
Euro Area	**2.6**	**1.4**	**1.2**	**2.4**
of which:				
Germany	2.5	1.4	1.0	2.0
France	1.9	1.4	1.2	2.6
Italy	1.5	0.3	0.3	1.4
Spain	3.8	1.8	1.7	3.8

International equity market volatility reached a multi year peak in March, as credit markets experienced a further bout of tightening in late February and sub-prime and credit market developments saw their highest profile impact with the announcement by Bear Stearns of an emergency liquidity position, leading to its subsequent rescue by the US Federal Reserve and JP Morgan Chase. Domestically, two further margin lenders recently landed in difficulty, with Opes Prime put into receivership and Lift Capital entering voluntary administration. This was driven by market movements, together with the firm's actions in the case of Opes Prime and investor calls on funds at Lift Capital.

[1] Goldman Sachs JB Were analysis

These events saw the Australian share market sold down into March, while markets responded positively to news that UBS had secured underwriting for a US$15 billion capital raising, following further write downs, and that Lehman Brothers had completed a US$4 billion raising. These events quelled speculation that these investment banks might have been heading the same way as Bear Stearns. Also in the second half of March, the US Federal Reserve took further substantive action to increase credit market liquidity, lowering the federal funds rate by 0.75% to 2.25% and extending lending facilities available to investment banks.

An important consideration, in the context of these global developments, is the strength of the Australian financial system. Australian banks have underperformed the market over the year to date, which reflects their exposure to rising funding costs from the repricing of risk in international credit markets and the reduced availability of securitisation as a funding source, while Australian banks have had minimal or nil direct exposure to US sub-prime securities. The banks have continued to benefit from the strong demand for lending in Australia, and while they have recently seen an increase in individual problem corporate exposures, overall defaults remain at very low levels. In the Reserve Bank of Australia's March Financial Stability Review, Glenn Stevens comments that, "In Australia, the financial system has coped better with the recent strains than have the financial systems of many other countries" and that "the banking system remains highly profitable and well capitalised".

Another aspect of interest in the current market situation is the forward looking nature of markets. The below charts show the performance of the US stock market, as measured by the S&P 500, around the previous 6 US recessions (periods of recession are marked by a shaded area). In all cases the stock market low leads the recession end, while in the majority of cases the low has occurred around the middle of the recession. Source: UBS

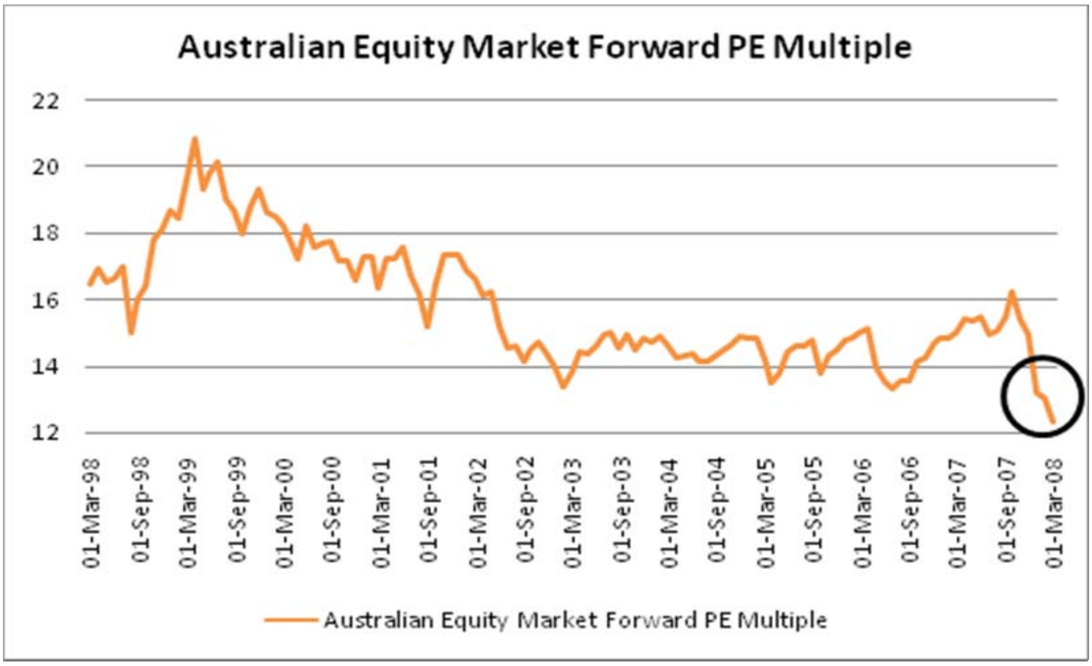
We have also looked at the historical performance of the Australian share market following periods in which the market has fallen by more than 20%. The percentage fall from the high and the 12 month return from the low are shown below for all such periods since 1960. Notably, the average 12 month return from the low is 29%.

Australian All Ordinaries Index, falls greater than 20% since 1960

Period	% Decline	12 months % return from low
Sep 60 - Nov 60	23	+12
Feb 64 - Jun 65	20	+9
Jan 70 - Nov 71	39	+52
Jan 73 - Sep 74	59	+51
Aug 76 - Nov 76	22	+5
Feb 80 - Mar 80	20	+39
Nov 80 - Jul 82	42	+39
Sep 87 - Nov 87	50	+35
Aug 89 - Jan 91	32	+39
Feb 94 - Feb 95	23	+25
Sep 97 - Oct 97	21	+18
Mar 02 - Mar 03	22	+27
Nov 07 – 18 March 2008	24	?
Average	31	29

Source: AFR 02/02/08, Bloomberg

From a broad value perspective, the recent market movements have caused a significant de-rating of the Australian market forward earnings multiple, as shown on the following chart. The current P/E, at 12.5x, is the lowest over the past 10 years, and is well below the level at the start of the bull market in 2003. While we anticipate a modest amount of downside risk to earnings forecasts, this measure does suggest that value may be emerging in the market at these levels.



Source: UBS

While the past quarter performance of the Australian share market has been a significant and tumultuous event - the worst quarter in 20 years, we also emphasise that the market has produced reliable returns over the long term. Attached on the back page is a chart of the Australian All Ordinaries Index from 1899 to February 2008, which clearly illustrates this long term trend.

Stock Performances

The Fund held a number of stocks over the past 12 months that contributed significantly to performance. The resources sector, in particular, continued to perform strongly, with Rio Tinto and BHP Billiton returning 69% and 42% respectively over the year, on the back of continued strength in commodity prices and good cost control. Rio Tinto's performance also benefited from the BHP takeover bid, which was formalised in February. Woodside Petroleum also rose 50%, despite production disruptions and cyclones in 1Q CY08, with increases in oil prices a major contributor. The financial sector fell due to continued concerns around liquidity and bad debts, with Macquarie Group losing 30% over the period and Babcock and Brown falling 50%. Harvey Norman's share price was also sold down from the end of January, to be down 15% over the last 12 months. The Fund reduced its position in the last quarter, while we remain confident in the long term prospects of this stock.

Outside the S&P/ASX 200, Brockman resources showed gains in excess of 100%, whilst both Pluton Resources and Integra Mining continued to perform well, returning in excess of 200% for the over the past 12 months.

Top 15 Holdings (as at 31 March 2008)

	ASX Code	Stock Name	Weighting	
			Fund %	ASX %
1	BHP	BHP BILLITON	16.0	13.3
2	WBC	WESTPAC BANKING CORPORATION	7.0	4.0
3	WPL	WOODSIDE PETROLEUM	4.7	2.3
4	RIO	RIO TINTO	3.8	3.7
5	WES	WESFARMERS	3.7	2.4
6	TSE	TRANSFIELD SERVICES	2.3	0.2
7	HVN	HARVEY NORMAN	2.1	0.2
8	BNB	BABCOCK AND BROWN	2.1	0.2
9	MQG	MACQUARIE GROUP	2.1	1.4
10	DXL	DYNO NOBEL	1.8	0.2
11	BBI	BABCOCK & BROWN INFRASTRUCTURE	1.5	0.2
12	SUN	SUNCORP-METWAY	1.4	1.1
13	LGL	LIHIR GOLD	1.3	0.6
14	MTS	METCASH	1.3	0.3
15	BOQ	BANK OF QUEENSLAND	1.2	0.2
	Total		**52.3%**	**30.3%**

Thank you for your ongoing support,

Yours sincerely,

Ronni Chalmers
Investment Director

Important information and disclaimer:

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.

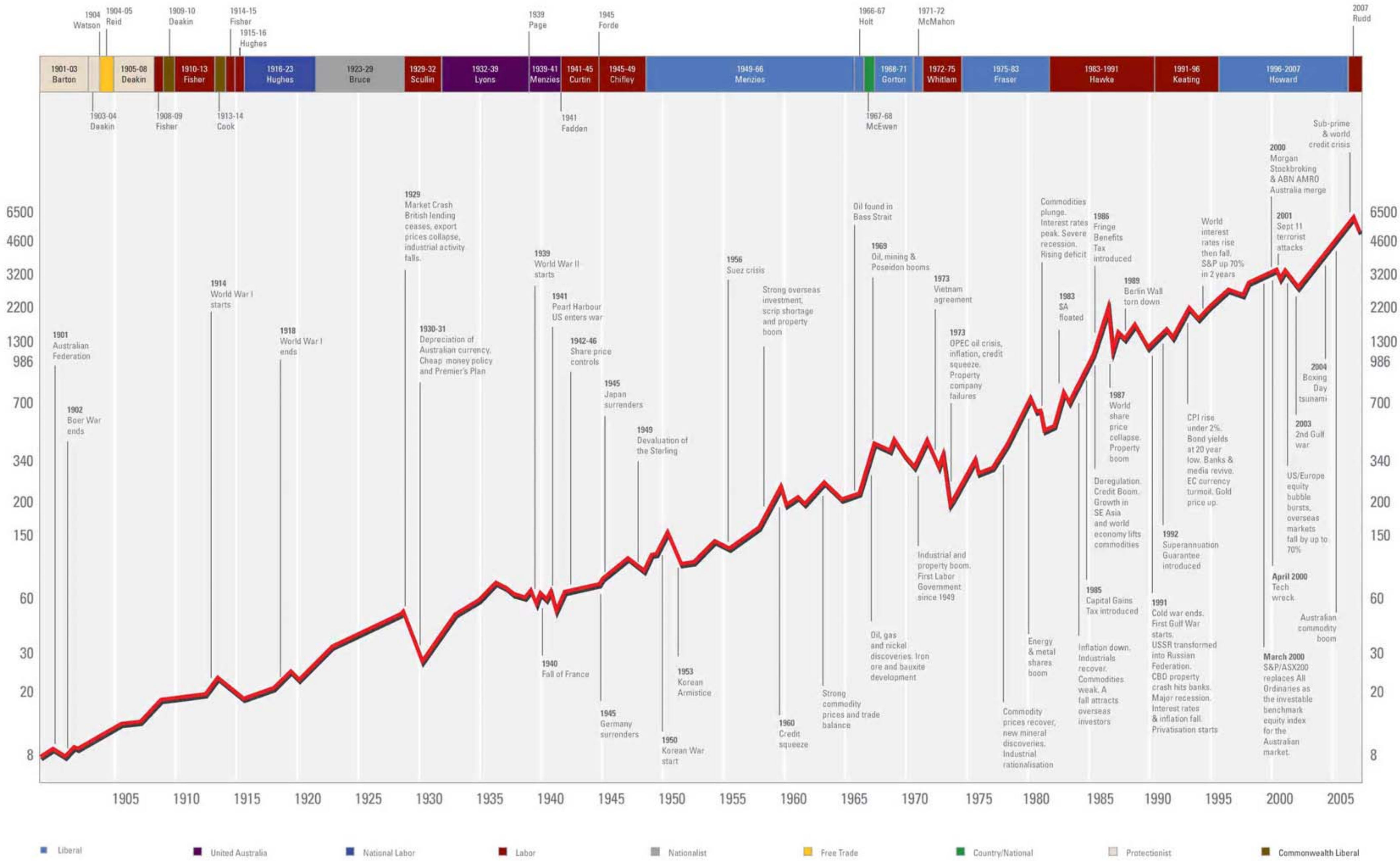
The contents of this report have been prepared without taking into account your individual objectives, financial situation or needs. Because of that, before acting you should consider the appropriateness of what is included here, having regard to your own objectives, financial situation and needs and see your qualified financial adviser before making any investment decision.

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.

AUSTRALIAN SHAREMARKET

1899 ~ February 2008



Source: ABN AMRO