

AUSTRALIAN

RESEARCH

MANAGED INVESTMENTS ANALYSIS

Listed Managed Investments

September 2008 Quarterly Review

EXTRACT

Recessionary fears cause market to tumble

Contents

This is an extract from the Listed Managed Investments September 2008 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 210 wholesale clients. While the FSP Equities Leaders' Fund has outperformed the S&P/ASX 200 Accumulation Index since inception, it has underperformed the index over the 12 months to 30 September.

Board

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

Investment Philosophy

The FSP Equities Leaders' Fund in which SCB invests 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. As at September 30, 91.2% of the equity portfolio was invested within the ASX 200 Index, with the remaining 8.8% 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, F FINSIA: Investment Director; R Gregory, BComm(Hons) (Econ & Fin), Pgrad Dip FINSIA: Equities Analyst; V Cook, BA, LLB: Equities Analyst; J Bowmer, BCom (Fin & Econ): Equities Analyst

Aegis Comments

SCB significantly underperformed the market over the September quarter and has underperformed over the 12 months to 30 September 2008, with the portfolio value (pre-tax NTA plus dividends) falling 45.5% over the 12-month period compared to the S&P/ASX 200 Accumulation Index, which fell 26.8%. The underperformance can in part be attributed to the decline in value of its DLS holding and partly attributed to the underperformance of FSP over the year to September; however, we note that SCB is now fully invested in FSP. FSP has significantly underperformed the market over the September quarter. The underperformance can partly be attributed to the allocation to ex-200 stocks, which have been adversely affected by the lack of liquidity in the market. SCB's trading discount narrowed significantly to 8.2% as at September-end, with the stock being bought in September despite the large fall in portfolio value. SCB is small in size and as such does not have the capacity to actively manage the discount to NTA or provide liquidity due to the lack of capital available. During these times of volatility we view this as a negative for investors. On 20 November 2008, SCB announced that it is in merger discussions with Bentley International Limited. The details are currently being determined with more details regarding the merger expected to be provided in the merger implementation plan, if an agreement can be reached.

Key investment information



RATING	Investment Grade
Price (\$)	0.43
As at 24 November 2008	
Market Cap (\$M)	8.5
Shares On Issue (M)	19.7
Shares Traded (\$M p.a.)	0.4
12-month L/H (\$)	0.40/1.06
Listing Date	August 1994

Fees

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

* Outperformance of S&P/ASX 200 Accumulation Index.

Pre-Tax NTA Performance Analytics (including dividends)

	S&P/ASX 200 Acc		All Ords Acc	
	1 Yr	3 Yr (p.a.)	1 Yr	3 Yr (p.a.)
Excess Per. (%)	(18.71)	(7.74)	(18.88)	(8.19)
Beta	1.22	1.15	1.16	1.15
TE (%)	11.66	12.28	10.84	11.73
IR	(1.61)	(0.63)	(1.74)	(0.70)

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

Dividend Yield (%)

FY06	FY07	FY08
6.76pf	6.76pf	3.66pf

Substantial Shareholders (%)

Orion Equities Limited	28.5
Peter Simpson and Associates	19.9

As at 30 September 2008

Company contact

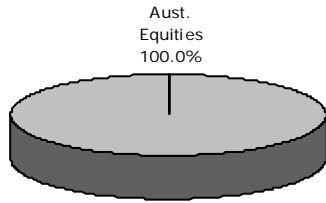


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Sector	Industry Group	Industry	Sub Industry
Financials	Diversified Financials	Diversified Financial Services	Other Diversified Financial Services

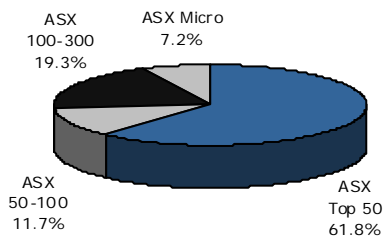
Asset Weighting



Other Data

Options	None on issue.
Dividend policy	Distribute at least 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

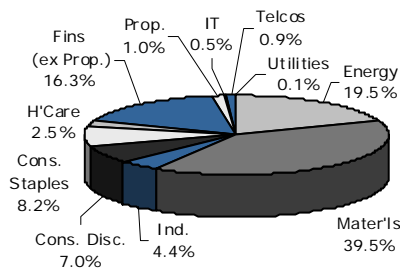
Size Weighting (Equities Component)



SCB's Portfolio (Top 10)

Code	Weighting		2009 Aegis Forecasts			Prem/Disc to Aegis Target (%)
	Portfolio (%)	S&P/ASX 200 (%)	PE (x)	Yield (%)	EPS Gth (%)	
BHP	17.0	10.2	6.8	3.9	50.6	(39.0)
WBC	8.5	5.0	10.3	7.0	5.4	(6.3)
WPL	5.9	2.3	20.2	2.5	(2.5)	(13.4)
WES	3.1	2.1	13.1	6.1	29.6	19.9
LGL	3.1	0.4	12.2	0.0	157.9	(25.0)
NCM	2.7	1.0	35.0	0.4	(36.8)	4.9
RIO	2.7	2.3	6.6	2.6	17.3	(39.4)
STO	2.3	0.8	17.1	2.3	15.0	(2.3)
FLX	2.1	0.1	na	na	na	na
IPL	2.1	0.6	7.3	8.5	18.0	10.5
Total	49.5	24.9	12.0	4.0	31.4	

Sector Weighting (Equities Component)

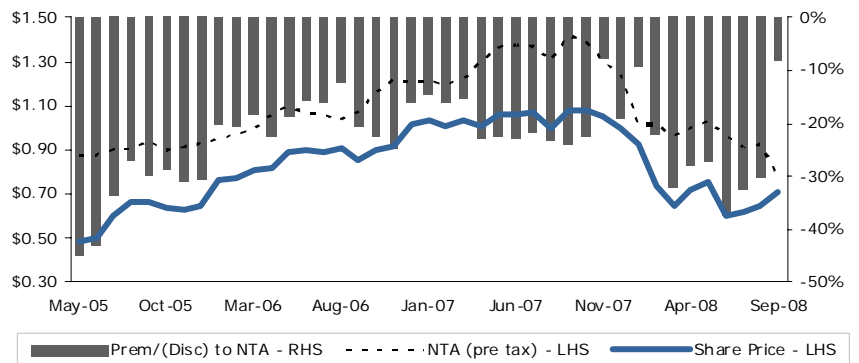


Tax-Based Returns on Share Price and Dividends

Fund	S&P/ASX 200 Acc		All Ords Acc	
	1Yr Rtn (%)	3Yr Ann (%)	1Yr Rtn (%)	3Yr Ann (%)
No Tax (0%)	(34.3)	7.2	(25.7)	5.3
Super Fund (15%)	(34.3)	6.5	(26.4)	4.5
AWOTE* (31.5%)	(34.3)	5.7	(27.1)	3.6
Max Tax Rate (46.5%)**	(34.3)	5.0	(27.7)	2.7

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

NTA & Share Price Performance



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

All data as at 30 September 2008 unless otherwise specified



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