

AUSTRALIAN

# RESEARCH

MANAGED INVESTMENTS ANALYSIS

## Listed Managed Investments

December 2007 Quarterly Review

Time for LMIs to Shine

## Contents

This is an extract from the Listed Managed Investments December 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 210 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 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. 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. SCB holds high-conviction positions in the majority of its top 10 positions, such as BHP, WBC, HVN, BNB and TSE. SCB significantly underperformed the benchmark over the December quarter with the portfolio value (pre-tax NTA plus dividends) falling 12.9% compared to the All Ordinaries Accumulation Index, which fell 1.7%. This resulted in the Fund's 12-month return to 31 December 2007, declining sharply to 6.3%. We attribute the underperformance of the Fund primarily to the 50.6% fall in DLS over the December quarter. Given the stake held in DLS, the significant decline in the share price had a large negative impact on SCB's NTA. The Fund continues to trade at a substantial discount to pre-tax NTA, with the discount being 19.1% as at December end. SCB management has indicated to Aegis that DLS is not a core long-term holding for SCB. Although holdings in DLS may contribute to further losses in the short term, we view the indication by the Fund that DLS is not a core long-term holding as a positive for the Fund and as such we maintain our Recommended rating.

## Key investment information



<b>RATING</b>	<b>Recommended</b>
<b>Price (\$)</b>	<b>0.70</b>
As at 14 March 2008	
Market Cap (\$M)	13.8
Shares On Issue (M)	19.7
Shares Traded (\$M p.a.)	2.0
12-month L/H (\$)	0.67/1.10
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. (%)	(11.66)	n/a
Beta	1.37	na
TE (%)	11.87	n/a
IR	(0.98)	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
6.00pf	4.80pf	4.80pf

## Substantial Shareholders (%)

Orion Equities Limited	28.5
Peter Simpson and Associates	19.9

As at 31 December 2007

## Company contact

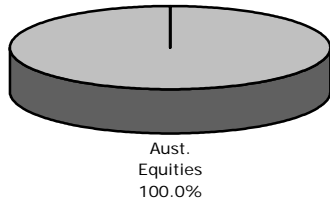


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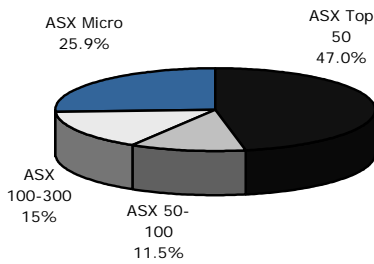
[www.scarboroughequities.com.au](http://www.scarboroughequities.com.au)

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

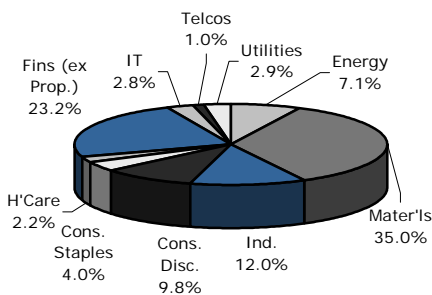
**Asset Weighting**



**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)**

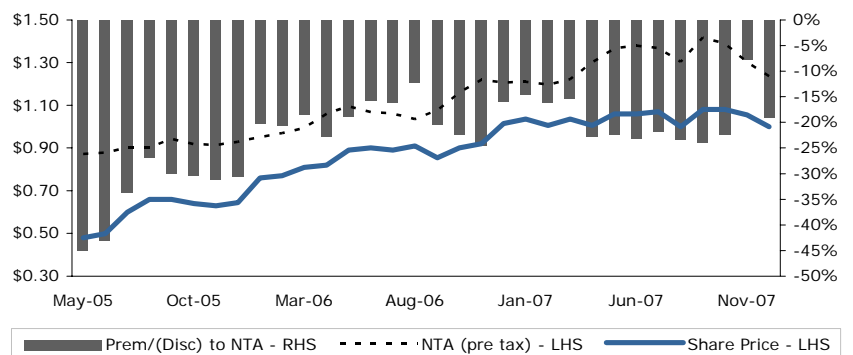
Code	Weighting		2008 Aegis Forecasts			Prem/Disc to Aegis Target (%)
	Portfolio (%)	S&P/ASX 200 (%)	PE (x)	Yield (%)	EPS Gth (%)	
BHP	15.0	10.9	13.1	2.1	6.5	(12.0)
DLS	12.8	na	na	na	na	na
WBC	7.2	4.2	13.3	5.3	10.8	(13.6)
WPL	3.8	1.8	14.5	3.8	111.2	(18.1)
RIO	3.3	3.1	14.3	1.8	39.1	(10.7)
HVN	3.0	0.3	22.1	1.7	25.0	14.2
NAB	2.9	4.9	12.6	5.2	11.5	(18.6)
MON	2.8	na	na	na	na	na
BNB	2.3	0.5	12.9	2.3	22.0	(27.5)
TSE	2.2	0.2	23.0	3.0	95.8	16.5
	<b>55.3</b>	<b>25.9</b>	<b>14.6</b>	<b>3.1</b>	<b>27.7</b>	

**Tax Based Returns on Share Price and Dividends**

	Fund		All Ords Acc	
	1Yr Rtn (%)	3Yr Ann (%)	1Yr Rtn (%)	3Yr Ann (%)
No Tax (0%)	5.5	na	18.4	21.5
Super Fund (15%)	4.4	na	17.7	20.8
AWOTE* (31.5%)	3.3	na	17.0	20.0
Max Tax Rate (46.5%)	2.2	na	16.3	19.2

\* 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 31 December 2007 unless otherwise specified



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