

AUSTRALIAN

RESEARCH



Contents

This is an extract from the Listed Managed Investments December 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 200 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 year to 31 December 2008.

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 31 December, 97.1% of the equity portfolio was invested within the ASX 200 Index, with the remaining 2.9% 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), F FIN: 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 December quarter and has underperformed over the 12 months to 31 December 2008, with the portfolio value (pre-tax NTA plus dividends) falling 50.3% over the 12-month period compared to the S&P/ASX 200 Accumulation Index, which fell 38.4%. The performance was impacted by the overweight position in the materials and energy sectors; however, the fund did benefit from its underweight position in financials and its gold and LNG exposed stocks. The fund has a defensive focus with a 23.8% cash position as at 31 December 2008. The manager expects the February reporting season to deliver further earnings downgrades, but expects to invest where it sees value and earnings certainty, which is consistent with their strategy. SCB's trading discount to NTA widened significantly to 41.3% as at December-end. 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. In November 2008, SCB proposed a merger with Bentley International Limited (BEL) to form a single LIC, whereby SCB shareholders would transfer their holdings to BEL. This was approved by SCB shareholders on 20 February 2009. A key issue is the merged LIC will have a new investment mandate, which will have a different risk profile to what it is currently. Given this uncertainty, we cannot provide a rating on SCB.

Key investment information

Not Rated	
RATING	Not Rated
Price (\$)	0.35
As at 6 March 2009	
Market Cap (\$M)	6.9
Shares On Issue (M)	19.7
Shares Traded (\$M p.a.)	0.3
12-month L/H (\$)	0.35/0.75
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. (%)	(11.89)	(6.56)	(9.95)	(6.24)
Beta	1.31	1.20	1.21	1.15
TE (%)	10.43	12.53	9.43	11.90
IR	(1.14)	(0.52)	(1.05)	(0.52)

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

Dividend Yield (%)

FY06	FY07	FY08
13.33pf	13.33pf	7.22pf

Substantial Shareholders (%)

Orion Equities Limited	28.5
Peter Simpson and Associates	19.9

As at 31 December 2008

Company contact



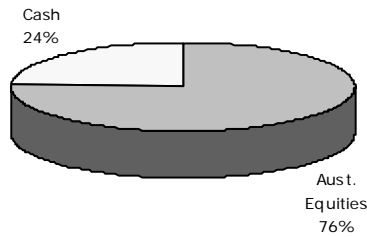
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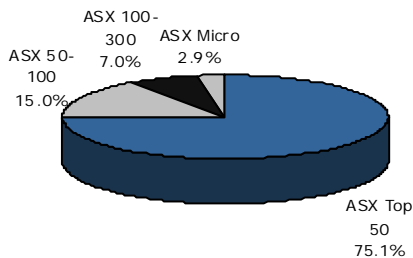
www.scarboroughequities.com.au

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

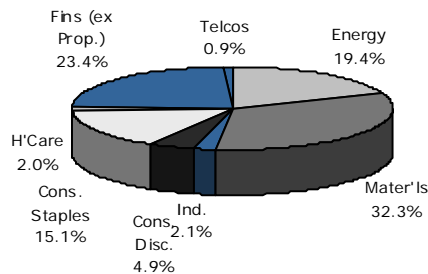
Asset Weighting



Size Weighting (Equities Component)



Sector Weighting (Equities Component)



Other Data

Options	None on issue.
Dividend policy	Distribute 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

SCB's Portfolio (Top 10)

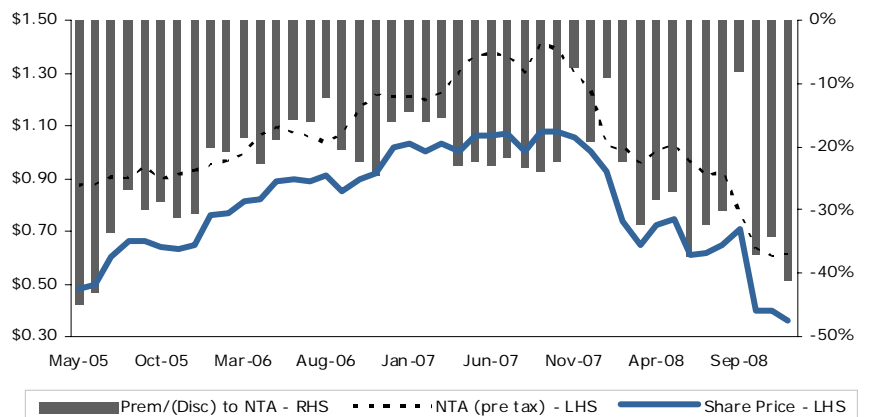
Code	Weighting		2009 Aegis Forecasts			Prem/Disc to Aegis Target (%)
	Portfolio (%)	S&P/ASX 200 (%)	PE (x)	Yield (%)	EPS Gth (%)	
BHP	13.1	13.0	7.7	3.5	32.2	(16.6)
WBC	8.4	6.2	10.2	8.4	(15.8)	(3.9)
WOW	5.8	4.2	18.2	3.8	10.8	(19.7)
WPL	5.7	2.2	22.1	2.3	(37.1)	(17.3)
NCM	4.5	2.0	34.8	0.3	(22.0)	(4.9)
LGL	4.4	0.9	9.2	0.0	234.2	(16.1)
ORG	3.7	1.8	23.9	3.0	33.5	7.0
QBE	3.3	3.3	11.6	4.9	10.9	(16.4)
MTS	2.5	0.4	15.2	5.3	14.1	(8.2)
STO	2.4	1.1	26.3	3.0	(35.4)	(1.4)
Total	53.8	35.0	15.6	3.7	22.0	

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%)	(64.0)	(13.8)	(37.5)	(2.6)
Super Fund (15%)	(64.0)	(14.4)	(38.1)	(3.4)
AWOTE* (31.5%)	(64.0)	(15.0)	(38.7)	(4.3)
Max Tax Rate (46.5%)**	(64.0)	(15.6)	(39.3)	(5.1)

* Marginal Tax rate for worker on the Average Wage OTE rate + Annualised
 ** Max Tax Rate of 46.5% used from July 2006 (48.5% used prior to July 2006)

NTA & Share Price Performance



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

All data as at 31 December 2008 unless otherwise specified



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