

Monday, 19 June 2006

## MARKET ANNOUNCEMENT

### Investment Manager's Report for May 2006

Attached is a May 2006 report from FSP Equities Management Limited (FSP) on the performance of its FSP Equities Leaders' Fund (FSP Fund).

As at 31 May 2006, the Company had a total of \$16.86 million (88% of the Company's net assets) invested in the FSP Fund under the management of FSP.

The 12 month performance of the FSP Fund to 31 May 2006 has been 27.5% (net). The benchmark performance (S&P/ASX 200 Accumulation Index) in the same period has been 27.2%.

#### About the FSP Fund

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 2005 being 94% with the balance in cash and listed fixed interest securities. 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. The cash component of the portfolio will contain other listed fixed interest holdings that include preference shares, convertible notes or hybrid securities. FSP is style neutral and invests in growth stocks, value stocks, stocks with maintainable dividend yields and special situations.

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19 June 2006

The Directors of Scarborough Equities Limited  
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### General Market Overview

The Australian equity market has continued to enjoy solid returns for the twelve months ending 31<sup>st</sup> May 2006, with the S&P/ASX 200 Accumulation rising by 27.2%. In this same period the Dow Jones rose by 8.6% and the FTSE 100 rose by 15.3% while the Japanese equity market as measured by the Nikkei 225 rose by 37.2%

In the quarter ending March 2006 the Australian stock market once again produced a positive result. This was its 13<sup>th</sup> consecutive positive quarterly return. I have written about this phenomenon in past letters, but suffice to say this has never occurred in living memory.

In the next week or so you will be receiving your May statement. With the general recent decline in global equity markets our unit price has fallen in the month. The Australian market declined by over 4.8% in the month which was the largest monthly decline on the market for over three years. We are hopeful that our fund did not fall as much as the market for May. Remember the previous month, April, was a particularly strong month for our fund. The unit price advanced by over 4.3% as compared by to a rise of “only” 2.5% by the S&P/ASX 200 Accumulation. So the unit price will probably be back to around March 31<sup>st</sup> levels. As I write this letter the Australian market has rallied by over 2% after the first three days of June.

In the twelve months ending 30<sup>th</sup> April 2006 our fund produced a net return assuming DRP of 34.7%\*, which is a very strong absolute return but slightly below the benchmark return.

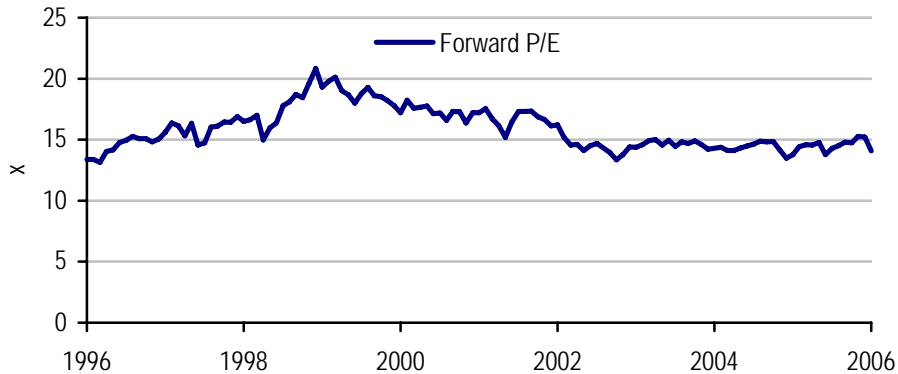
### Australian Market

The Australian equity market is currently trading at around 15 times forecast June 2007 earnings. Looking at the following graph supplied by UBS it should be seen that the market is not trading at excessive multiples when viewed over the decade.



#### FSP Equities Management

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The month of May experienced extremely sharp falls in the prices of resource stocks. For example BHP fell from a high at the start of the month of \$32.00 to finish the month at \$28.23 and RIO in the same period fell from an intra month high over \$88.00 to finish the month at \$78.10. I am glad to report we do not hold either of these two stocks. Our total position in Minara Resources - a long term holding of ours - was sold at \$2.45 before finishing the month at \$2.25.

The recent rise in Australian official rates to 5.75% and the expected further rise later this year to 6% has caused the price of infrastructure shares (being long duration assets) to fall noticeably. We have used the weakness in the sector to increase our holdings in Babcock & Brown Infrastructure (BBI), Macquarie Infrastructure Group (MIG) and Macquarie Airports (MAP). These three stocks have all fallen approximately 18% from their one year highs, and at the current prices offer attractive yields.

Other stocks in the portfolio which added to performance were Coles Myer (CML) and Insurance Australia Group (IAG). Both these companies announced capital management initiatives, namely a large (\$1b) off market buy back by the former and a large \$200m special dividend by the latter.

The fund held a 2.7% weighting in News Corp shares as at December 2005 and this position has been sold for a useful profit. Twelve months ago when index changes forced the exclusion of News Corp from the local indices many fund managers were forced to sell or down weight their holding in this company. We took this opportunity of weakness to build up our position. Recent press articles have indicated the ASX may soon consider including this company in the local indices once again and the stock price has responded to this rumour.

Our portfolio is constructed in such a way that we are seeking stocks that can offer attractive returns over the next three to five years and we are not attracted to stocks just because they are a large component of a particular index. As a case in point BHP which is the largest stock on the Australian stock exchange and accounts for over 10% of the ASX 200 we do not hold.



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## Top 15 Holdings as at 05 June 2006

Asset	Asset Name	% Weighting	ASX200 % Weighting
NAB	NATIONAL AUSTRALIA BANK	7.0%	6.0%
BNB	BABCOCK & BROWN	4.3%	0.3%
TLS	TELSTRA	4.2%	2.4%
WDC	WESTFIELD	3.6%	2.7%
COH	COCHLEAR	3.4%	0.3%
CML	COLES MYER	2.9%	1.4%
MBL	MACQUARIE BANK	2.6%	1.6%
IAG	INSURANCE AUSTRALIA	2.5%	0.9%
WES	WESFARMERS	2.3%	1.4%
BIL	BRAMBLES INDUSTRIES	2.3%	1.1%
QAN	QANTAS AIRWAYS	2.1%	0.7%
TEN	TEN NETWORK	2.1%	0.1%
BBI	BABCOCK & BROWN INFRASTRUCTURE	1.8%	0.2%
AAE	AUSTRALIAN ETHANOL	1.7%	-
TOL	TOLL HOLDINGS	1.6%	0.9%

As can be seen from the above table we do not aim to replicate the index weighting. The fund is currently holding approximately 100 stocks which provides substantial diversification in these volatile times.

### Consistent Long Term Performance

We continue to emphasise the merits of focusing on long term results. Our net returns to 30<sup>th</sup> April 2006 are:

1 year 34.7%\*  
 2 year 28.9%\*  
 3 year 35.2%\*  
 4 year 21.6%\*

I have included below our net monthly returns since the fund commenced in April 2002. The point to highlight being equity investments are volatile by nature so be aware of short term swings in the unit price.

Fund Performance (net of fees and expenses)												
	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC
<b>2006</b>	1.2%	3.2%	3.9%	4.4%								
<b>2005</b>	0.7%	0.7%	-0.9%	-3.8%	2.5%	1.9%	5.6%	2.1%	4.7%	-3.4%	2.3%	2.2%
<b>2004</b>	0.8%	2.3%	2.7%	-2.8%	0.6%	2.6%	2.1%	2.3%	3.9%	6.3%	5.4%	1.5%
<b>2003</b>	-2.2%	-6.9%	0.4%	4.6%	-1.8%	4.1%	7.5%	11.2%	6.7%	6.9%	-1.4%	5.4%
<b>2002</b>				0.7%	1.2%	-2.2%	-4.0%	2.6%	-4.4%	1.1%	-0.5%	-0.9%



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## June Half Year Distribution

Calculation of the distribution for the half-year ending 30<sup>th</sup> June 2006 will be finalised in July. As we have done in previous years distributions will be automatically reinvested as additional units. However if you **do not** wish to reinvest your distribution, please contact me by June 30<sup>th</sup> on 02 9253 8564 or via email [rchalmers@fspgroup.com.au](mailto:rchalmers@fspgroup.com.au)

Additional units from reinvested distributions will be issued to you in July, based on the 30<sup>th</sup> June net tangible asset value of the fund. Historically around 98% of clients have taken the distribution reinvestment plan.

Thank you for your on going support and I hope as we approach June 30 you have enjoyed a successful year.

Yours sincerely



**Ronni Chalmers**  
Investment Director

### Important information and disclaimer:

The FSP Equities Leaders Fund is a wholesale fund and is not open to retail investors.

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.

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.