



Monthly – High Conviction Fund

July 2008

Performance Summary

	1 month	Inception
Portfolio	-2.10%	-10.25%
Benchmark	-4.69%	-11.90%
Performance	+2.59%	+1.65%

Month Summary

The portfolio returned -2.1% for the month of July 2008. This outperformed the benchmark S&P/ASX 300 Accumulation Index, which returned -4.7% for the month.

July was another volatile month for the Australian equities market, which moved in a 400 point (+/-8%) band. A mid month bank rally was short lived following downgrades by two of the big four banks towards the end of the month. A significant pull back in the oil price (-9.5%) coupled with increasing concerns over Asian/China growth saw profit taking in energy and resources stocks, with transport-related stocks being the main beneficiary. Traditional defensive sectors such as Telcos, Utilities and Industrials outperformed while the Energy, Materials and REITs sectors lagged.

Portfolio Activity

Holdings in Mount Gibson Iron, Equinox Minerals and OneSteel were trimmed to fund a new position in Ramsay Health Care. The stock had been sold off over 30% during May and June on the back of proposed legislative changes to the Medicare Levy Surcharge Threshold, which we believe was an overreaction by the market. It is uncertain whether the legislation will be passed by the Senate and, if passed, the likely result is a large portion of members aged under 30 dropping out of private health insurance. However, these members only make up a small portion of Ramsay's patient mix (around 5-7%). In addition we believe the market doesn't appreciate the significant growth opportunity for the UK hospitals business with the public system outsourcing patients to the private sector and the potential cost efficiencies to be gained.

Stock Performance

The top performers for the month were Ramsay Health Care (+10.2%), Pacific Brands (+9.0%) and Metcash (+7.8%). In the absence of any significant stocks specific news, all 3 rebounded strongly during July after we believe they were over sold by the market in the previous month.

The main underperformers were predominantly small cap stocks, including STW Communications Group (-21.6%) on continuing concerns around the outlook for advertising spending and small cap resources stocks such as Mount Gibson Iron (-15.7%) on negative sentiment against most iron ore stocks and Equinox Minerals (-16.5%) following fire damage that will delay project completion of its Lumwana mine.