



Monthly – High Conviction Fund

August 2008

Performance Summary

	1 month	Inception
Portfolio	+4.65%	+2.45%
Benchmark	+4.04%	-0.84%
Performance	+0.61%	+3.29%

Month Summary

The portfolio returned 4.7% for the month of August 2008. This outperformed the benchmark S&P/ASX 300 Accumulation Index, which returned 4.0% for the month.

Due to the high volume of company data released during the August reporting season, individual sector performance was primarily driven by stock-specific information rather than macroeconomic trends. The Australian equities market traded in a band between 4800 and 5050 for most of the month before finishing strongly over the last two days to close above 5100. Healthcare was the top performing sector, while REITs and Consumer Discretionary also outperformed after being the two biggest underperformers over the past twelve months. Telcos,

Utilities and Materials lagged although the gap between outperforming and underperforming sectors was narrower than in recent months.

Portfolio Activity

A new position in Transfield Services Infrastructure Fund was established during the month. The fund owns a portfolio of power generation assets that are well diversified by both geography and fuel source. Unlike many other listed infrastructure and utilities funds, Transfield generates sufficient cash flow to fund both its maintenance capex and distributions, while maintaining a relatively conservative level of gearing. The fund had been indiscriminately sold off throughout the year as the market sold down stocks in sectors with high levels of debt. We were able to build a stake in early August at very attractive prices with the stock yielding over 17% at the time we began purchasing it.

Holdings in Pacific Brands, Gunns and Equinox were reduced to fund the investment in Transfield.

Stock Performance

The top performers for the month were STW Communications (+29.0%), Fletcher Building (+23.5%) and Pacific Brands (+19.6%). We believe that these stocks had been significantly over sold by the market throughout the year. The market appeared to be anticipating that these companies (and the industries in which they operate) would experience a significant downturn in profitability, far worse than what we believed to be likely, even in a 'worst case' situation. As reporting season progressed and these stocks and their competitors reported, it became apparent that the market was overly pessimistic about their prospects and all three rebounded strongly.

The main underperformers were Gunns (-29.3%) following a disappointing FY08 result as doubts remain over funding the proposed Bell Bay pulp mill, Mount Gibson (-8.4%) as concerns about the strength of the Chinese economy and strengthening US dollar impacted resources stocks in the first half of the month, and Lend Lease (-3.8%) after guiding for negative earnings growth next year on the back of weakness in the Australian and UK communities businesses.