

**MMC Contrarian Limited (MMC)**  
**March 2008 Quarterly Investment Update**

This is the seventeenth quarterly investment update since MMC listed in December 2003. In this report we deal with the performance and composition of the investment portfolio for the previous 3 months.

A summary of the portfolio is set out at Appendix 1.

**Performance of the portfolio during the previous 3 months:**

Your company's portfolio returned -8.42% compared to the All Ordinaries Accumulation Index return of -14.68% for the quarter. The equity component of the investment portfolio returned approximately -17.8%. We report performance for information purposes only. We are long term investors and short term performance, whether positive or negative relative to a benchmark, is not a focus for us.

After a bull run that has lasted several years, risk has finally returned to the equity market. The cause of this risk reversion has its roots in the global credit bubble which has systematically driven up asset values, particularly but not exclusively residential property in the US. The epicentre of the drama was the rapid increase in US sub-prime mortgage defaults which triggered a significant widening of credit spreads for all mortgage instruments and the corporate credit market. Despite the combined efforts of the major central banks, liquidity in these markets remains well below historic levels. The result of the collapse of the structured finance markets has had a number of casualties, including RAMS. Even one of the giants of Wall Street was not immune, with Bear Stearns narrowly avoiding bankruptcy.

The impact on Australian investors has been severe, mainly through contagion in the financial sector. The past quarter has seen the worst quarterly return on the ASX 200 since 1987. As investors digested the impact of a potential slowdown in the Australian economy, the spectre of slowing consumer spending and rising bad debts has caused large price adjustments in consumer and financial shares. The only bright spot has been the relative performance of the commodity based companies, BHP and Rio Tinto, and the traditionally defensive healthcare and telecommunications shares. In reality though, the only safe investment in the quarter has been cash.

In light of the market turmoil it is understandable that investors are nervous. Nothing stimulates fear like a large financial loss. Even professional investors like ourselves can suffer inertia and indecision in the face of market upheavals. In the recent edition of the Outstanding Investors Digest, a highly regarded US value manager Seth Klarman from the Baupost Group neatly summed up the impact of fear on an investor:

"If a loss freezes you from taking full advantage of a great opportunity, or pressures you to make it a smaller position than it should or would otherwise be, then the cost of a loss may be far greater than the initial loss itself."

In our experience, the only reliable way of remaining rational in a turbulent market is to rely on a robust and disciplined investment process and also have the courage to hold cash. Our process focuses on establishing absolute valuations for companies. We don't rely on relative valuation measures to tell us

what an asset is worth. The fact that one company may have a PE ratio of 20 does not mean a peer is cheap at 15 times. We focus on the fundamentals of sustainable cash flows, balance sheet strength, inherent competitive advantages and the all important margin of safety. In the absence of sensible value, preserve your capital in cash. The investment portfolio had an average cash exposure of approximately 50% over the quarter earning a margin above the cash rate.

**Portfolio Activity:**

The March Quarter has been notable for significantly reduced liquidity coupled with underperformance of smaller companies relative to large. As a result many of the smaller holdings have shown considerable volatility, largely reflecting the increased uncertainty that companies are operating under.

New investments during the quarter included the ANZ Bank. We are comfortable with buying ANZ at these levels with a medium to long term view and feel the current credit restricted environment is providing a reasonable entry level.

We exited our positions in Dark Blue Sea, Spotless Group and Symbion Health. Dark Blue Sea was sold into the share buyback. Spotless was sold ahead of the announced merger with Programmed Maintenance Services which has since seen the shares touch 10 year lows and Symbion Health was sold into the successful Primary Healthcare takeover bid.

We reduced our holdings in Babcock and Brown Structured Finance Fund, ING Real Estate Entertainment Fund and Independent Practitioner Network.



Alex Hutchison  
CEO  
MMC Contrarian Limited

**Important Disclaimer**

The investment Manager, its directors and employees, do not accept any liability for the results of any action taken or not taken on the basis of the information in this report, or any negligent misstatements, errors or omissions. This report has been prepared solely for the benefit of MMC Contrarian and its shareholders. This report summarises information on investments acquired by MMC Contrarian as of the date of the report. This information should not be considered as a recommendation on the suitability of any of these investments for any shareholder or third party. By making available this report we are not providing any general advice or personal advice, within the meaning of section 766B of the Corporations Act, regarding MMC Contrarian, any potential investment in MMC Contrarian or any investments or potential investments of MMC Contrarian. This report has been based on information furnished by us and other sources but no assurances can be given by us as to the accuracy and completeness of this information. The views expressed, and the financial products held by MMC Contrarian, as stated within this report are accurate as of date of its preparation. These views and financial products held by MMC Contrarian and its service providers may and will change after the issue of this report. Past performance is not necessarily indicative of future performance.

## Appendix 1: An unaudited summary of MMC Contrarian investments at 31<sup>st</sup> December 2007 and 31<sup>st</sup> March 2008.

<u>Summary of Investments valued at market</u>	31 <sup>st</sup> March 2008 \$ '000	% of portfolio	31 <sup>st</sup> December 2007 \$ '000	% of portfolio
<i>Equities (Top 20)</i>				
Contrarian Global Value Fund	18,530	10.5	18,790	8.1
Telstra Corporation Ltd Instalment Receipts (TLSCA)	10,272	5.8	11,551	5.0
Mainfreight NZ (MFT)	6,774	3.8	7,646	3.3
ConnectEast Group (CEU)	6,091	3.4	7,909	3.4
News Corporation Ltd (NWS)	4,070	2.3	4,804	2.1
James Hardie (JHX)	3,918	2.2	3,921	1.7
Wattyl Ltd (WYL)	3,778	2.1	5,070	2.2
Calliden (CIX)	3,452	2.0	5,045	2.2
Australian and New Zealand Banking Group (ANZ)	3,422	1.9	-	
Telecom Corporation of New Zealand (TEL)	3,399	1.9	3,995	1.7
Norkolk (NFK)	3,310	1.9	4,386	1.9
CVC Ltd (CVC)	2,539	1.4	3,635	1.6
Premier Investments Ltd (PMV)	2,356	1.3	2,388	1.0
Envirozel (EVZ)	2,271	1.3	4,825	2.1
Regional Express Holdings (REX)	2,216	1.3	4,277	1.8
Babcock & Brown Structured Finance Fund (Singapore)	2,029	1.1	3,889	1.7
Clime Investment Management Ltd (CIW)	2,029	1.1	3,489	1.5
Warehouse Group (New Zealand) (WHS)	1,741	1.0	1,724	0.7
Pumpkin Patch (PPL)	1,576	0.9	2,278	1.0
Fisher and Paykel Healthcare (FPH)	1,231	0.7	1,492	0.6
Other	7,052	3.9	14,156	6.1
	92,056		115,270	
Funds on deposit	84,894		117,690	
Total capital employed	176,950		232,960	
NTA per share before tax -cents	73.9*		95.9	
MMA share price - cents	62		90	
(Discount) / Premium to NTA before tax-%	(16.1)		(6.2)	
NTA per share after tax- cents	76.7		95.9	
(Discount)Premium to NTA after tax-%	(19.2)		(6.5)	

\*A 10 cent per share return of capital was paid to shareholders on 22<sup>nd</sup> Feb 2008 amounting to \$24.6 million