



MMC ASSET MANAGEMENT LTD  
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## MMC Contrarian Limited (MMC Contrarian) December 2004 quarterly investment update

In this quarterly update we review the performance of the investment portfolio for the previous 3 months and for the period since the company listed, discuss our philosophy in relation to the MMC Contrarian options, which are exercisable any time up to 30<sup>th</sup> June 2005 and update you on MMC Contrarian's dividend outlook.

### Timing of this update:

It is important for the company to send option holders timely information to decide whether they want to exercise their options prior to 30<sup>th</sup> June 2005 to participate in the interim dividend. This report, which is accompanied by a pre printed option exercise notice together with notes on how to complete it, is being sent to all share and option holders in the 1<sup>st</sup> week of January prior to the finalisation of 31<sup>st</sup> December 2004 accounts. The disclosed NTA in the report is therefore **only an estimate** however it is unlikely to vary materially from the NTA number that will be announced to the ASX by 14<sup>th</sup> January 2005.

### Interim Dividend:

Last financial year MMC Contrarian declared a fully franked final dividend of one cent per share for the seven month period to June 2004 which was paid on 7<sup>th</sup> October 2004.

The company's policy is to distribute a growing stream of fully franked dividends to shareholders every six months. Based on the current performance of the company and provided there is no major deterioration in the portfolio the board of MMC Contrarian will pay an interim fully franked dividend of one and half cents for the period to December 2004. This interim dividend will be declared in February 2005 and paid in March 2005.

**It is important to note that the options do not expire until 30<sup>th</sup> June 2005 and no action is required until then. However option holders who wish to participate in the interim dividend will have to exercise their options and pay the option money before Friday 11<sup>th</sup> February 2005.**



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Option Holder Strategy:

An option was issued with each ordinary MMC Contrarian share for Nil consideration at the time of the initial listing (ASX code MMAO) of the company. These options were also separately listed on the ASX on 11<sup>th</sup> December 2003 and at the 31<sup>st</sup> December 2004 are trading at 6 cents per option. The holder is entitled to subscribe for a \$1.00 share in MMC Contrarian anytime up to 30<sup>th</sup> June 2005. If all options are exercised the capital of your company will be expanded by a further \$200m. At the end of December 2004 approximately 4.0 million of these options have been exercised.

MMC Contrarian held investments of \$146.8m (61.4%) in cash and cash equivalents out of total investible funds of \$239m at the end of December 2004. As mentioned in our previous update we are comfortable with holding a high level of cash in what we consider to be a market with few value investment opportunities.

You may ask why we are suggesting that option holders consider exercising their options before the 30<sup>th</sup> June 2005 when we already have a large proportion of your assets invested in cash. Our logic is simple. We are uncertain when the market may fall and would like to have some certainty of the likely capital base of MMC Contrarian in order to facilitate our investment decisions, and to have more cash resources to take advantage of likely Contrarian opportunities when there is a substantial fall in the market. Additionally, early exercise of some options will provide a more gradual dilution effect on the NTA backing of MMC Contrarian than if all the options are exercised on 30<sup>th</sup> June 2005.



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**An unaudited summary of MMC Contrarian investments at 30<sup>th</sup> September 2004 and 31<sup>st</sup> December 2004 is detailed below:**

<u>Summary of Investments valued at market</u>	30 <sup>th</sup> September 2004	% of portfolio	31 <sup>st</sup> December	% of portfolio
<i>Equities</i>				
PMP Ltd (PMP)	21,777	9.8	27,480	11.5
Burns Philp & Company Ltd (BPC)	18,649	8.4	23,445	9.8
IOOF Holdings Ltd (IFL)	11,814	5.3	9,043	3.8
Abacus Property Group Ltd (ABP)	6,307	2.9	7,777	3.3
Hunter Hall Global Value Ltd (HHV)	6,509	2.9	6,293	2.6
Prime Infrastructure Ltd(PIF)	5,287	2.4	5,068	2.1
Flight Centre Limited (FLT)	-	-	4,230	1.8
Reinsurance Australia Corporation Ltd (RAC)	4,675	2.1	3,848	1.6
Other	10,136	4.5	5,065	2.1
	85,154	38.3	92,249	38.6
<i>Hybrids</i>				
ANZ Ltd 8½ % Preferred Shares (StEP)	10,203	4.6	10,238	4.3
Allco Hybrid Investment Trust (PoDS)	-	-	8,950	3.7
Commonwealth Bank Preferred Shares (PERLS)	5,153	2.3	5,138	2.2
	15,356	6.9	24,326	10.2
Funds on deposit	121,869	54.8	122,480	51.2
Total capital employed	222,319	100.0	239,055	100.0
NTA per share before tax -cents	109.1		115 estimate	
MMA share price - cents	101.0		106.0	
(Discount) Premium to NTA before tax-%	(8.0)		(8.5)	
NTA per share after tax- cents	106.7		111 estimate	
(Discount)Premium to NTA after tax-%	(5.6)		(4.7)	
MMA option price -cents	4.7		6.0	



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Review of the portfolio over the previous 3 months

As can be seen from the Summary of Investments on page 3 your company's total assets have increased by \$16.7m over the period with 48.8% of the portfolio at 31<sup>st</sup> December invested in equities and hybrids compared with 45.2% at 30<sup>th</sup> September 2004. During this three month period there has been strong appreciation in the value of the core holdings in the portfolio being Burns Philip Limited, PMP Limited and IOOF Holdings Limited. We have sold approximately 20% of your IOOF Holdings Limited shares and made an investment of \$4.2m in Flight Centre Limited. We also invested \$8.9m in the Allco PoD Hybrids which are anticipated to commence trading on the ASX in early January 2005.

During this period approximately 4.2m options were exercised at \$1, increasing assets by \$4.2m.

Review of the portfolio since listing

MMC Contrarian listed on the Australian stock exchange on 11<sup>th</sup> December 2003 having raised \$195.8 million for investment, net of the expenses of the offer. The company now has over 9000 shareholders and over 5000 option holders. NTA at the time of listing was 98.1 cents.

A summary of the composition of the portfolio in quarterly rests since listing and the NTA and share and option price at the relevant dates are shown below for your information.

\$ Million

	31 March 2004	30 June 2004	30 September 2004	31 December 2004
Equities	61	74	85	92
Hybrids	15	15	15	24
Cash on deposit	126	122	122	123
Total Capital Employed	202	211	222	239
NTA Per Share				
Before Tax on unrealised gains- Cents	98.8	105.4	109.1	115
MMA Share price- cents	93.0	97.0	101.0	106.0
MMA Option price- cents	3.4	4.0	4.7	6.0



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Since listing MMC Contrarian NTA has increased from 98.1 cents to 115 cents before tax on unrealised gains. At the close of business on the day of listing the share price was 92 cents and has increased to 106 cents as at 31st December 2004. The options which are exercisable anytime up to June 2005 were priced at 7 cents at the day of listing and are now trading at 6 cents with only 6 months left before the date of expiry.

Your company has held a minimum of 60% of its assets in cash or cash equivalents since listing. This is primarily because we are value investors and we do not feel compelled to invest your company's assets in the share market if suitable opportunities are not available.

The equity portion of your capital has been invested in a concentrated portfolio of companies based in Australia. In line with our disciplined approach to investing we researched a significant number of Contrarian opportunities and invested in no more than 15 of these companies. We invested a large portion of your funds in Burns Philp Limited, PMP Limited and IOOF Holdings Limited all of which appreciated substantially in value during the period. Although this may be re-assuring for both you and us it is important to realise that equity markets have appreciated substantially throughout the year. In addition we do not place undue emphasis on short term performance especially when investing in Contrarian opportunities. We aim to produce a minimum investment return of 5% in excess of the 10 year government bond rate over the long term (5years in our view).

AGM Presentation:

MMC Contrarian's Annual General Meeting of shareholders was held in Sydney on 20<sup>th</sup> October 2004. We appreciated the large number of shareholders who attended the meeting and took an active interest at the meeting in questioning the company's chairman, Simon Rowell, and the founder of MMC Asset Management Limited, Erik Metanowski, and his investment management team.

Erik Metanowski  
Executive Director  
MMC Asset Management Limited

Kevin Eley  
Director  
MMC Asset Management Limited

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