

MMC Contrarian Limited (MMC Contrarian)

June 2005 quarterly investment update

This report has been prepared by MMC Asset Management Limited on behalf MMC Contrarian Limited. This is the sixth quarterly investment update since MMC Contrarian listed in December 2003. In this report we deal with the following issues:

- your company's dividend philosophy and outlook
- recent changes to your company's capital structure and
- the performance and composition of the investment portfolio for the previous 3 months

We recognise that we have discussed some of the above issues in the past with you but believe them to be important enough to bring to your attention once again.

Overview

The June quarter saw an increase in volatility of the Australian stock market after the long upward trend broke in February. Following the lead of the Dow Jones in the US, the Australian market fell during April, driven by fears of an economic slowdown (both global and domestic), rising interest rates, and a series of profit downgrades in small-mid cap companies.

However, fears of further interest rate rises waned due to the release of economic data indicating decreases in GDP growth, consumer spending and property prices. The market appears to have considered the March interest rate rise to be a one-off in the short term. In addition, the federal government delivered fiscal stimulus through personal income tax cuts in the May budget. These factors led to the market rebounding in May and reaching new heights in June.

The manager is content to hold a significant cash position in the current market, with a view it will provide the flexibility to buy new holdings or top up existing positions at more attractive prices than those currently available. In light of the recent volatility in the market, a number of contrarian opportunities are likely to emerge and holding a significant amount of cash will enable your company to take advantage of this.

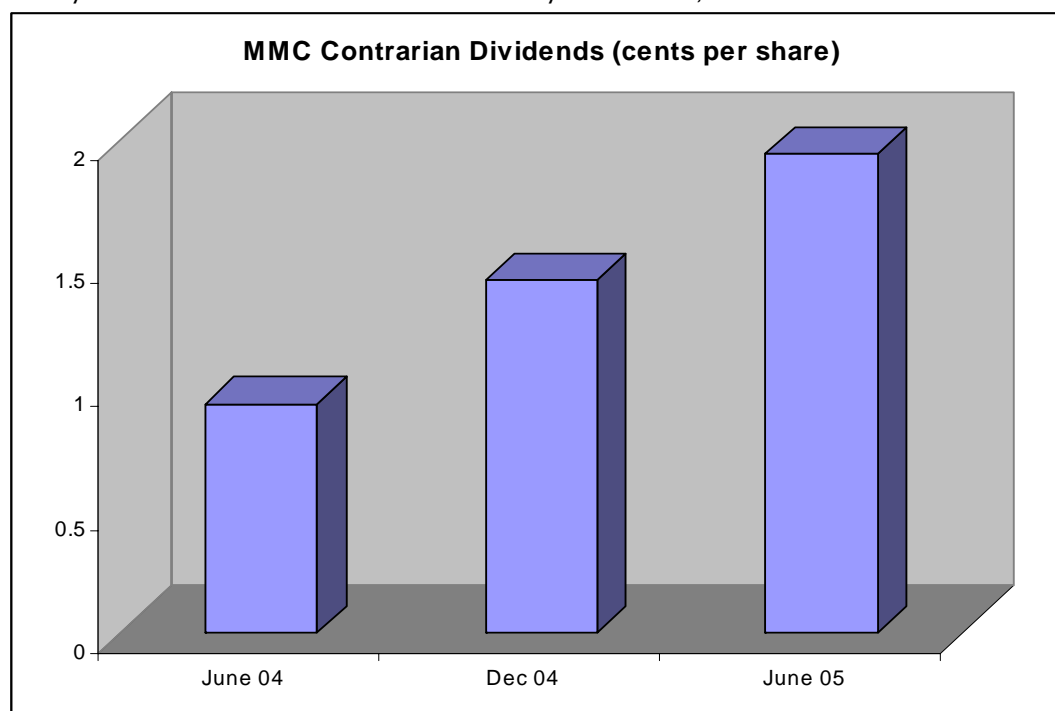
Interim Dividend:

Last financial year MMC Contrarian declared an inaugural fully franked final dividend of one cent per share for the seven month period to June 2004, which was paid on 7th October 2004. For the year to June 2005, a fully franked interim dividend of one and a half cents per share for the six month period to December 2004 was paid on 24th March 2005.

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 a final fully franked

dividend of two cents for the period to June 2005. This final dividend will be declared in August 2005 and paid in September/October 2005.

The full dividend for the year equates to three and a half cents per share compared to one cent per share for the previous year. Your company's policy is to distribute a growing stream of fully franked dividends to shareholders every six months, as illustrated below.



While the NTA is a major factor underpinning the share price, we expect that distributing a growing stream of dividends will result in the dividend yield becoming an increasingly major factor underpinning the share price.

Capital Management:

An option was issued with each ordinary MMC Contrarian share for nil consideration at the time of listing (ASX code MMAO) on 11th December 2003. The holder was entitled to subscribe for a \$1.00 share in MMC Contrarian anytime up to 30th June 2005. At 30th June 2005 24.75 million options had been exercised and converted into ordinary shares. The exercising of options expanded the capital of your company by a further \$24.75m. 175 million options expired and were cancelled by your company.

On 16th December 2003, the Directors of MMC Contrarian introduced a share buy back scheme to buy MMC Contrarian shares in the event that they consistently traded at a substantial discount to the NTA of the company. At 30th June 2005 9.4 million shares were acquired at prices between 93 and 105 cents under the scheme and subsequently cancelled.

The number of shares on issue at 30 June 2005 equates to 216 million shares with the NTA at 109.9 cents (pre tax).

An unaudited summary of MMC Contrarian investments at 31st March 2005 and 30th June 2005 is detailed below:

<u>Summary of Investments valued at market</u>	31 st March 2005	% of portfolio	30 th June 2005	% of portfolio
<i>Equities</i>				
Burns Philp & Company Ltd (BPC)	27,175	10.8	24,244	10.1
PMP Ltd (PMP)	25,500	10.1	21,712	9.0
Prime Infrastructure Ltd (PIF)	9,781	3.9	14,429	6.0
Abacus Property Group Ltd (ABP)	7,500	3.0	7,555	3.1
Babcock & Brown Japan Property Trust (BJT)	4,234	1.7	7,367	3.1
Hunter Hall Global Value Ltd (HHV)	6,053	2.4	5,801	2.4
IOOF Holdings Ltd (IFL)	6,947	2.7	5,556	2.3
Babcock & Brown Capital Ltd (BCMCA)	4,465	1.8	5,211	2.2
Ridley Inc (Canada)	3,932	1.6	3,393	1.4
McPherson's Ltd (MCP)	-	-	3,077	1.3
Other	179	0.0	-	-
	95,766	38.0	98,345	40.9
<i>Hybrids</i>				
Alco Hybrid Investment Trust (PoDS)	8,726	3.5	8,185	3.4
	8,726	3.5	8,185	3.4
Funds on deposit	147,279	58.5	134,065	55.7
Total capital employed	251,771*	100.0	240,595	100.0
NTA per share before tax –cents	113		109.9	
MMA share price – cents	100.0		93.5	
(Discount) Premium to NTA before tax-%	(11.5)		(14.9)	
NTA per share after tax- cents	110		107.8	
(Discount)Premium to NTA after tax-%	(9.1)		(13.3)	
*pre payout of 1.5 cents dividend				

Review of the portfolio over the previous 3 months

As a result of our continuous review of the investment portfolio, we bring the following matters to your attention.

Movements in the portfolio:

As can be seen from the summary of investments on page three, 44.3% of the portfolio at 30th June is invested in equities and hybrids compared with 41.5% at 31st March 2005. New investments included McPherson’s Ltd while we increased your investments in PMP Limited, Prime Infrastructure Limited, and Babcock & Brown Japan Property Trust.

Portfolio Activity:

Increased Holding in PMP Limited (PMP)

Despite PMP’s profit downgrade, we remain comfortable with this holding, as its long term fundamentals remain sound. PMP flagged in April that capacity shortages during the third quarter had constrained gross margin expansion. This led to PMP taking on less high margin work than expected. The investment team have visited PMP’s plants in Sydney and Brisbane and are constantly monitoring the progress management are making on installing and commissioning the four new MAN Roland 64 page presses. We viewed the recent profit downgrade and subsequent share price fall as a significant contrarian opportunity and topped up our holding in PMP.

Increased Holding in the Babcock & Brown Japan Property Trust (BJT)

Last quarter your company invested in BJT, a trust focused on investing in the Japanese property market. This quarter we increased our holding as we believed BJT was undervalued. BJT is a solid example of a contrarian opportunity because despite some positive market sentiment towards it the market nonetheless underestimated its value, the reasons for which are tabled below:

Market’s misinterpreted view of BJT	Our contrarian view
The Japanese property market has historically been a poor investment and is in the midst of a long term bear market.	The Japanese property market is showing signs of recovering from a long term bear market. It is important to note that in fundamental investing, last year’s winner / loser is often not this year’s winner / loser.
Property is out of favour in Australia, ‘the bubble has burst’, and the investment case for property is weak because property yields are currently lower than interest rates (i.e. the cost of borrowing is greater than the return).	The Japanese property market has different cyclical dynamics from Australia. Fundamentally, the investment case for Japanese property remains intact as property yields are around 5% compared to interest rates at 2%.

<p>Interest rate and currency arbitrage vulnerable to depreciating AUD and interest rate rises in Japan.</p>	<p>BJT has instigated long term forward and swap agreements to fix its exposure to currency and interest rates, ensuring the robustness of its 'financial engineering'.</p>
<p>BJT does not have earthquake insurance.</p>	<p>Earthquake insurance is rarely purchased by Japanese property owners, a characteristic of the market, as most of the property value lies in the land, not the building.</p>
<p>Average lease terms to expiry are short, with many expiring in the next 2 years.</p>	<p>As with earthquake insurance, this is a characteristic of the Japanese property market. Think of the Australian residential rental market - leases tend to run 6-12 months yet average tenant occupancy is well in excess of that. Similarly, the average tenancy occupation is far longer than the lease term in Japanese commercial rental market. The costs of relocating make short term occupancy uneconomical.</p>
<p>Japan is geographically distant from Australia and cultural differences exist, the resulting of which is that Japanese properties may not be managed properly due to a lack of oversight of and performance incentives for Japanese based management. The market often refers to this as 'information asymmetry'.</p>	<p>Babcock & Brown has 10 years experience in the Japanese property market and ensure that management is directed and incentivised.</p>

As highlighted above, we believe risks are being satisfactorily managed by BJT. Accordingly, a larger holding was established to take advantage of this opportunity.

Investment in McPherson's Limited (MCP)

The fund purchased consumer goods wholesaler MCP during the quarter. MCP is a leading distributor of homeware products and also has a printing business. Its share price had been heavily sold down since January on the basis of declining consumer sales in early 2005 and resulting negative market sentiment towards wholesale distributors. It appeared to be oversold based on current valuations and a small position was established.

Increased Holding in Prime Infrastructure Limited (PIF)
(name changed to Babcock & Brown Infrastructure post 30 June 2005)

The fund increased its holding in PIF to participate in the share placement and rights issue, both at a substantial discount to the prevailing market price. Most of the monies raised were used to fund the IEG acquisition. IEG is a UK based gas distributor, supplying domestic consumers in the UK and Portugal and is the second largest operator in both of these markets.

The IEG business complements PIF's existing business providing further stability and cash flow growth. This will ensure that earnings are further diversified across asset sectors while reducing volatility by industry and geographic segment. The share placement is almost certain to propel PIF into the ASX 100, putting it under increased scrutiny from large cap and index fund managers. The positive sentiment created through the Dalrymple Bay Coal Terminal ruling, the IEG acquisition and likely entry into the ASX 100 saw a run up in the share price.

Reporting season

Company reporting season begins in late July and runs for approximately 6 weeks. During this period the investment team will review your company's investments, reassess the fundamentals of the core holdings and the performance of other potential investments.

We will update you on the results of our review in the next quarterly investment update.

Long term review of the portfolio

A review of the portfolio over the past year and since inception will be included in the Annual Report under the Investment Manager's Report. However, it is important for you to realise that we aim to outperform over the medium to long term (3 to 5 years) and do not place undue emphasis on short term performance, especially when investing in contrarian opportunities.

The Annual Report for the year to 30th June 2005 will be sent to you at the end of August 2005. MMC Contrarian's Annual General Meeting will be held on the 19th October at 11am in the Sydney Masonic Centre, 279 Castlereagh Street, Sydney, when we look forward to answering any questions you may have. Shareholders unable to attend in person are welcome to submit written questions.

Erik Metanomski
Executive Director
MMC Asset Management Limited

Kevin Eley
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