

MMC Contrarian Limited (MMC Contrarian)

March 2006 quarterly investment update

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

- contrarianism over the last year
- 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

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

Contrarianism

An important matter to address in this report is MMC Contrarian's performance. Since inception, the portfolio has achieved 11% per annum in a phase of the market cycle that has provided few attractive contrarian opportunities. Despite brief retractions in April and October 2005 and a flat February 2006, the market's momentum has, if anything, accelerated with the All Ordinaries Index returning 24.06% (29.37% on an accumulation basis) for the year to 31 March 2006.

However, the broad market performance belies the narrow nature of its origins. Just 8 stocks accounted for more than 60% of the market's total price return of 24%. The "Big Four" Banks (CBA, NAB, ANZ and Westpac); Australia's two largest mining companies, BHP and Rio Tinto; an oil producer, Woodside Petroleum; and the building materials manufacturer, Rinker.

A further study of the components of the market's overall return reveals neither the 8 highest contributing stocks nor the 3 highest contributing sectors meet our investment criteria. Financials, Materials and Energy were by far the top 3 sectors contributing over 89% of the market's total price return.

Viewed through the prism of MMC's investment philosophy of favouring companies with solid investment fundamentals, an attractive return on capital employed and the ability to generate a relatively high level of free cash flow, these 8 companies and 3 sectors appear unattractive in providing longer term investment opportunities.

Understanding this recent market dynamic underpins the high degree of comfort we take from our current strategy of holding a relatively high level of cash within the portfolio in the absence of contrarian opportunities in the share market. In other words, we are holding this cash for what we consider to be the right reasons, namely acting in your best interests in the long term whilst preserving your capital in the short term.

Interim Dividend:

The board of MMC Contrarian declared a fully franked interim dividend of three cents per share for the six month period to December 2005. This interim dividend was paid on 23rd March 2006. Dividends declared during the 2005 calendar year totalled five cents per share compared to two and a half cents per share for the previous calendar year.

This increase in the interim dividend continues your company's policy of distributing a growing stream of fully franked dividends to shareholders every six months. We expect the final dividend for the current financial year to exceed the two cents per share last financial year.

Capital Management:

On 16th December 2003, the Directors of MMC Contrarian introduced a share buy back scheme to purchase MMC Contrarian shares in the event that they consistently traded at a substantial discount to the NTA of the company. At 31st March 2006 12.2 million shares had been acquired at prices between 93 and 105 cents and subsequently cancelled.

The number of shares on issue at 31 March 2006 equates to 216 million shares with an NTA of 112.1 cents (pre tax).

Performance of the portfolio during the previous 3 months:

The All Ordinaries Accumulation Index rose 9.4% during the quarter as investor sentiment continued to fuel market momentum. Your company's portfolio returned 2.7% during this period, with the equity component of the portfolio returning 4.9%. Core holdings performed strongly during the quarter including Commander Communications (+16.6%), Hunter Hall Global Value (+13.1%), IOOF (+12.7%), News Corporation (+7.5%) and PMP (+7.1%).

Portfolio Activity:

The holding in Carter Holt Harvey was exited after the Rank Group's increased take over offer of NZ\$2.75 was accepted. This outcome supported our investment thesis and contrarian perspective, which held that there was significant untapped value in the company and that the Rank Group would increase its offer to buy out the remaining minority shareholders. We believed that the potential one-off incremental cost of a higher bid to take the company private would, over a period of time, be far less than the on-going costs associated with running a public company. Since Rank acquired 85% at NZ\$2.50, the higher offer to buy out the remaining 15% had a minimal impact on its average purchase price.

A stake was purchased in Babcock & Brown Wind Partners (BBW) following its IPO last October. Babcock & Brown has a 16 year track record in the global wind energy sector arranging over US\$3bn worth of wind projects. Considering the high EBITDA margins, earnings quality, modest gearing and potential growth, BBW appears undervalued. The global wind energy industry has historically grown at 28% pa and is forecast to grow at 20% through to 2009. BBW has a strong pipeline of wind farm opportunities to participate in future industry growth.

A position has been built in Commander Communications following its purchase of an 80% stake in wireless broadband operator, Personal Broadband Australia (PBA) and subsequent take over bid for the Volante Group (VGL). These acquisitions give CDR the potential to significantly increase future earnings by broadening its customer base, bundling products and gaining exposure to new markets.

A stake in Coles Myer was established following the sale of the Myer business and its Melbourne CBD property for \$1.4 billion. This outcome substantially exceeded consensus expectations, which ranged from \$0.8 – \$1.2 billion. The Myer sale follows other recent value generating transactions, including the sale of the loss making Megamart business and the Hedley Hotel Group acquisition. We believe that there is significant opportunity throughout the group for improvements in supply chain management, logistics, IT, staff efficiency and marketing. The company has a net cash position post the Myer sale, solid brands and its re-focus on the core food and liquor segment should drive margins and earnings.

Telstra was purchased in the belief that short term risks including dividend reduction and unfavourable regulatory rulings are largely factored into its share price. Management has forecast a 28 cent dividend for the next 3 years, which should support the share price over that period. In the event of unfavourable regulatory rulings on ULL and safe harbouring a new fibre network, Telstra will likely reduce forecast depreciation and capex spend, increasing earnings and cash flow available to pay dividends respectively.

The holding in Hunter Hall Global Value was trimmed after a strong run in its share price.

A summary of the composition of the portfolio, the NTA and share price at the relevant dates are shown below for your information.

\$ Million

	31 December 2003	30 June 2004	31 December 2004	30 June 2005	31 December 2005	31 March 2006
Equities	13	74	92	98	85	94
Hybrids	0	15	24	8	6	6
Cash on deposit	185	122	123	134	156	144
Total Capital Employed	198	211	239	240	247	244
NTA Per Share						
Before Tax on unrealised gains- cents	99.1	105.4	115.2	109.7	112.4	112.1
Dividends paid (cumulative)	-	-	1.0	2.5	4.5	7.5
Before Tax on unrealised gains pre dividends- cents	99.1	105.4	116.2	112.2	116.9	119.6
MMA Share price- cents	93.0	97.0	106.0	93.5	94.5	93.0

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Appendix 1: An unaudited summary of MMC Contrarian investments at 31st December 2005 and 31st March 2006.

<u>Summary of Investments valued at market</u>	31 st Dec 2005 \$'000	% of portfolio	31 st Mar 2006 \$'000	% of portfolio
<i>Equities</i>				
PMP Ltd (PMP)	23,987	9.7	24,482	10.0
Babcock & Brown Infrastructure Ltd (BBI)	10,303	4.2	15,122	6.2
Abacus Property Group Ltd (ABP)	8,862	3.6	10,692	4.4
News Corporation Ltd (NWS)	7,602	3.1	9,761	4.0
Babcock & Brown Wind Partners Ltd (BBW)	499	0.2	4,726	1.9
Hunter Hall Global Value Ltd (HHV)	6,242	2.5	3,982	1.6
IOOF Holdings Ltd (IFL)	3,430	1.4	3,868	1.6
Ridley Inc (Canada)	3,535	1.4	3,629	1.5
Babcock & Brown Capital Ltd (BCM)	1,420	0.6	3,323	1.4
Commander Communications Ltd (CDR)	2,670	1.1	3,113	1.3
Coles Myer Ltd (CML)	-	-	2,399	1.0
Telstra Corporation Ltd (TLS)	-	-	1,705	0.7
Other	3,066	1.2	6,754	2.7
Carter Holt Harvey Ltd (CAH)	13,411	5.4	-	-
	85,027	34.4	93,557	38.3
<i>Hybrids</i>				
Alco Hybrid Investment Trust (PoDS)	6,453	2.6	6,369	2.6
	6,453	2.6	6,369	2.6
Funds on deposit	155,510	63.0	144,359	59.1
Total capital employed	246,990	100.0	244,285	100.0
NTA per share before tax –cents	112.4		112.1*	
MMA share price – cents	94.5		93.0	
(Discount) Premium to NTA before tax-%	(15.9)		(17.0)	
NTA per share after tax- cents	111.4		110.6*	
(Discount)Premium to NTA after tax-%	(15.2)		(15.9)	
*Post 3 cent dividend in March 2006				