

# MMC Contrarian Limited

ABN 83 106 248 248  
Level 5, 34 Hunter Street  
Sydney NSW 2000  
GPO Box 4406 Sydney NSW 2001

Phone: +612 9221 7155  
Fax: +612 9233 2713  
Email: [enquiries@mmccontrarian.com.au](mailto:enquiries@mmccontrarian.com.au)  
Web: [www.mmccontrarian.com.au](http://www.mmccontrarian.com.au)

14 October 2004

Dear Fellow Shareholder and/or Option Holder

## Quarterly investment update and dividend

I enclose the September investment update from MMC Asset Management Limited, the investment manager of MMC Contrarian Limited (MMC Contrarian).

The manager's quarterly report provides shareholders with more information than just the monthly NTA statement. In this report the manager comments on MMC Contrarian's cash holdings and provides an update on certain equity holdings. It is published on MMC Contrarian's website ([www.mmccontrarian.com.au](http://www.mmccontrarian.com.au)) and also filed with the ASX for investors to access.

The Board's policy is to distribute a growing stream of franked dividends to shareholders every six months. Based on the current performance of the company and provided there is no major deterioration in its portfolio the Company will pay an increased fully franked dividend for the six months ending 31 December 2004.

Option holders who wish to participate in the December 2004 interim dividend will have to exercise their options and pay the option money before Friday 11<sup>th</sup> February 2005. To exercise their options option holders need to complete the form on the back of their option certificate.

On behalf of the Board

Yours sincerely



**Simon Rowell**  
**Chairman**

MMA is a listed investment company. MMA's investments are managed by MMC Asset Management (MMC).

MMA's investment philosophy is aimed at preserving and growing shareholders' capital **over the long term**. This is achieved by acquiring a concentrated portfolio of companies primarily listed on the Australian Stock Exchange that are trading at a discount to their fair value (**value investing**), by thinking independently and not following the herd (**Contrarianism**), and by having structured and methodical approach to investing (**discipline**). An MMA share therefore offers its shareholders exposure to a distinct investment strategy that is not widely available in the investment markets.

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**MMC Contrarian Limited (MMC Contrarian)**  
**September 2004 quarterly investment update**

In this quarterly update we review the investment portfolio as at 30th September 2004, comment on MMC Contrarian's cash holdings and inform you of two house keeping matters.

Dealing with the house keeping matters first.

**AGM:**

MMC Contrarian's Annual General Meeting of shareholders is to be held at the Ionic Room, Sydney Masonic Centre, 279 Castlereagh Street, Sydney on Wednesday 20th October 2004 at 11.00am. Besides the normal business matters to be conducted at the AGM there will be a presentation by the company's chairman, Simon Rowell and Erik Metanomski the founder of MMC Asset Management Limited.

The board of MMC Contrarian cordially invites you to attend the meeting and will be pleased to answer any questions you may have in regard to the company or its investments.

**Interim Dividend:**

The board of MMC Contrarian declared an inaugural fully franked final dividend of one cent per share for the 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 franked dividends to shareholders every six months. Based on the current performance of the company and provided there is no major deterioration in its portfolio the board of MMC Contrarian will pay an increased interim fully franked dividend for the period to December 2004.

Option holders who wish to participate in the December 2004 interim dividend will have to exercise their options and pay the option money before Friday 11<sup>th</sup> February 2005. To exercise their options option holders need to complete the form on the back of their option certificate.

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

Summary of Investments valued at market	30 <sup>th</sup> June 2004 \$000	% of portfolio	30 <sup>th</sup> September 2004 \$000	% of portfolio
<b>Equities</b>				
PMP Ltd (PMP)	19,329	9.2	21,777	9.8
Burns Philp & Company Ltd (BPC)	18,117	8.6	18,649	8.4
IOOF Holdings Limited (IFL)	9,836	4.7	11,814	5.3
Hunter Hall Global Value (HHV)	8,439	4.0	6,509	2.9
Abacus Property Group Ltd (ABP)	3,247	1.5	6,307	2.9
Prime Infrastructure Ltd (PIF)	1,929	0.9	5,287	2.4
Reinsurance Australia Corporation Ltd (RAC)	3,896	1.8	4,675	2.1
Gribbles Group Ltd (GGL)	8,145	3.9	-	-
Other	787	0.4	10,136	4.5
	<b>73,725</b>	<b>35.0</b>	<b>85,154</b>	<b>38.3</b>
<b>Hybrids</b>				
ANZ Ltd 8_% Preferred Securities (StEP)	10,160	4.8	10,203	4.6
Commonwealth Bank Pref shares (PERLS)	5,193	2.5	5,153	2.3
	<b>15,353</b>	<b>7.3</b>	<b>15,356</b>	<b>6.9</b>
Funds on deposit	122,089	57.8	121,869	54.8
Total capital employed	<b>211,167</b>	<b>100.0</b>	<b>222,319</b>	<b>100.0</b>
NTA per share before tax -cents	105.3		109.1*	
MMA share price	97.0		101.0	
(Discount) Premium to NTA before tax-%	(8.6)		(8.0)	
NTA per share after tax -cents	103.7		106.7	
(Discount)Premium to NTA after tax-%	(6.9)		(5.6)	
MMA option price -cents	4.0		4.7	

**The NTA at the time of listing was 98.1 cents.**

**\* After provision for a 1 cent fully franked dividend which was paid on 7 October 2004.**

### **Review of the portfolio:**

Your company's total assets have increased by \$11.1m over the three month period with 45.2% of the portfolio at 30<sup>th</sup> September 2004 invested in equities and hybrids compared with 42.3% at 30<sup>th</sup> June 2004. The investments comprising this concentrated portfolio have all risen in value during the three month period. Although this may be reassuring for both you and us it is important to realise that we aim to outperform over the long term and do not place undue emphasis on short term performance especially when investing in contrarian opportunities.

At the end of September 2004 MMC Contrarian held investments of \$121.8m in cash deposits and a further \$15.4m in hybrid securities, a total of \$137.2m in cash and cash equivalents. This does not concern us as we do not feel compelled to invest your company's assets in the share market if suitable opportunities are not available. We are comfortable with holding a high level of cash or cash equivalents in what we consider to be a market with few value investment opportunities.

For the eleven plus years of its existence, MMC Management Limited has periodically held large cash positions on behalf of its investors. Undoubtedly, this can make us vulnerable to criticism from some of our investors particularly when markets are rising and continue to do so. Our response will always be that we are far less concerned with catching the top of the wave than we are with being wiped out. Most investors are focused upon a one dimensional desire to make money. We also love to make money for our investors, but our first focus is upon not losing money.

Before enquiring about potential returns, sensible investors will first ask, what risks are to be taken in attempting to generate that return?

As noted share market historian, William Bernstein wrote:

“It's pretty clear there is a relationship between return and risk. If you want to earn high returns, be prepared to suffer grievous losses from time to time. And if you want perfect safety, resign yourself to low returns. In fact, the best way to spot investment fraud is the promise of safety and very high returns”.

What investors often forget is that higher risk does not guarantee higher returns – it merely offers the **chance** of higher returns, but also the potential for considerable losses, and, in some cases, permanent capital impairment.

At the time of the 1987 “crash” fund managers were frantically selling stocks to raise cash to fund redemptions, in turn often forcing them to sell stocks at highly discounted prices when buying them would probably have been far more sensible. These forced sales may have been avoided had fund managers held a proportion of their assets in cash, particularly given the lofty valuations then prevailing. But the unspoken rule was that funds should be close to fully invested at all times – one of the many examples of prevailing conventional wisdom resembling a serious case of flawed reasoning and market folly.

To conclude, it is often in the fund manager's best interest to be a market follower rather than a market leader even if he believes that the market is wrong. If the market collapses, he will just go down with everyone else, but if he dares to exercise **independent/contrary** thought and do what he believes to be in the best long term

interests of his clients, he is vulnerable to being made to look very foolish for periods of time. We will not be a Manager that chooses investment risk (for our clients) over career risk (for ourselves). You can't eat "relative" performance, you can only survive and prosper via "absolute" performance.

As Leon Levy once wrote:

"There is a genius on one side of every trade and a dolt on the other, but which is which does not become clear until much later".

### **Review of the results for the year to June 2004 for the companies in your portfolio:**

The September quarter is a very busy period for our investment management team with most companies reporting their financial results during this period. As part of our disciplined investment process we review the results for all the companies in your portfolio with particular emphasis on:

- ascertaining how the profitability and cash flows compare with our expectations
- meeting management to discuss the results and their outlook for the future
- reviewing and monitoring all announcements by brokers and the press
- reviewing the results of competitors, customers and suppliers to gauge how they are performing
- attending AGM's to meet with the chairman and directors of the company to discuss their outlook for the business and relevant industry prospects.

Putting all the above information together assists our analysis as to whether each investment in your portfolio continues to represent value. Should any of the criteria that led us to investing in the company change, or should the price in our view increase substantially and the shares become overvalued we would re-evaluate our position and may consider selling all or part of your holding.

**As a result of our review we believe it is appropriate to report the following matters to you.**

#### **PMP Limited (PMP): Market capitalisation: \$507 million**

On the 26<sup>th</sup> August the chairman of PMP Graham Reaney announced that the board had renegotiated CEO David Kirk's employment contract. What impressed us in particular was the equity component of David Kirk's remuneration package. The allocation of 4 million options (exercisable at \$1.60 and to be issued subject to shareholder approval) can only vest and be exercised if ambitious earnings per share hurdles are achieved. We understand that these hurdle rates are aligned with the company's three year corporate plan.

We applaud the PMP board in this initiative and note that if all 4 million options allocated to David Kirk vest and are exercised under the terms of the plan he and his management team will have delivered substantial value to shareholders.

**Burns Philp & Company Limited (BPC):** Market capitalisation: \$1585 million

On 22nd July 2004 BPC announced that it had agreed to sell its Yeast and Bakery Ingredients business, together with its Herbs and Spices business to Associated British Foods Plc for a total price of A\$1.9 billion. The sale of both of these businesses were completed in September 2004 and the company later announced that the proceeds will be used to repay BPC's senior secured debt facilities of approximately A\$1.55 billion. After adjusting for cash on hand BPC's net debt as a result will be A\$800 million.

In August 2004 BPC also reported a high quality profit result with the Goodman Fielder business generating EBITDA of \$350m. We are expecting an improvement on this number in the current year.

In our view the above announcements are positive for the company and reinforce our views previously expressed about management, the business and the markets assessment of the company.

**The Gribbles Group Limited (GGL):** Market capitalisation: \$244 million

GGL released their results for the year to June 2004 in August 2004. After reviewing the results and taking into consideration all other relevant information at that time we sold your entire holding at a worthwhile profit.

**Other investments:**

Included under the summary of investments valued at market is an amount of \$10.136m representing 4.6% of the total assets of your portfolio. The majority of this amount relates to shares of two contrarian opportunities which we are endeavouring to buy at current market prices. We aim to update you on these opportunities in our next quarterly update due to be released in early January 2005.

Erik Metanomski  
Executive Director  
MMC Asset Management Limited

Kevin Eley  
Director  
MMC Asset Management Limited

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