



27 July 2001

**Australian Small Company Investment Fund -
Investment Update & Performance for 6 months to 30/06/2001**

Please find enclosed your distribution and tax statements for Australian Small Company Investment Fund for the period to 30 June.

On behalf of Bill Ryan and myself, I would like to take this opportunity to thank-you for your support of the fund in the first year of its existence.

In the 7 months since inception until 30 June 2001 the fund returned 16.4%. We regard this performance as satisfactory.

To give you a flavour of the investments held by the fund, I have included a brief outline of the investment logic behind 2 stocks currently held.

Macquarie Goodman Management (MGM) is principally a property manager and manages the \$1.1bn of assets in Macquarie Goodman Industrial Trust. It's business model is very similar to the very successful Westfield Holdings, but specialising in the industrial sector. At our average purchase price of \$0.40 MGM was valued at some 9% of funds under management. At the current share price of \$0.75, it has run ahead of the fundamental valuation and is valued at nearly 17% of funds under management. While at these prices, we are not buyers, we are confident that management will continue the growth of funds under management and profits and consequently are still not inclined to sell these shares.

Ramsay Health Care (RHC) is one of the largest private hospital operators in Australia. Over the past few years, private hospitals in Australia have been through a difficult period – the health funds have been pushing prices down and the participation rate of Australians taking out private health insurance has been falling. However this turned around in July 2000 when the participation rate jumped from 31% to 46%, as a result of some Federal Government initiatives. This combined with some other changes to the health care legislation has significantly changed the economics in favour of the private hospital operators. In the four years to June 2000, RHC averaged a poor 6.7% return on equity. With the sale of it's loss making Adelaide hospital last year, the acquisition of Alpha Health Care and the industry changes, we feel that RHC is well placed to improve it's profitability to a level which provides an adequate return on equity. While we are cautious about a long term investment in such a politically sensitive and Government regulated industry, in the medium term we feel we can make money as RHC goes from a period of poor returns to at least reasonable returns.

We will continue to work diligently over the coming year to achieve another satisfactory return and I look forward to giving you an update in 6 months.

Sincerely,

Rob Hopkins

Australian **Small co**mpany Investment Manager

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