



7 January 2002

**Australian Small Company Investment Fund -  
Investment Update & Performance for 6 months to 31/12/2001**

Please find enclosed your distribution statement for Australian Small Company Investment Fund for the 6 month period to 31 December 2001.

In the 6 months to 31 December 2001 the fund returned 8.3%. We regard this as another satisfactory 6 month performance after the 16.4% return for the 6 months to June 30. The total return for calendar 2001, the fund's first full year of operation, was 26.0%.

In our previous investment update, we spoke of 2 stocks we then held – Macquarie Goodman Management (MGM) and Ramsay Health Care (RHC). These stocks continued to perform strongly over the period with MGM up from \$0.70 to \$1.18 and RHC up from \$3.05 to \$4.58.

Our FY03 forecast for RHC is for return on funds employed of 18.9%. While this is a believable forecast we think it is close to approaching what even RHC's excellent management can achieve from private hospitals. Additionally private health care is a politically sensitive and Government regulated industry which adds to the investment risk. While FY03 is clearly some time away and RHC's earnings momentum is likely to continue lifting the share price for some time, we have deemed it prudent to sell most of our holding.

Energy Developments (ENE) is a niche electricity producing company, which listed in 1993. Since then it has had average EPS growth of 17.2% and increased profits and electricity generating capacity every year. At the same time as continuing to produce record annual profits, ENE has been developing its Solid Waste Energy Recycling Facility (SWERF), which will turn household waste into electricity and reduce the amount of household waste going to landfill by in excess of 70%. Unfortunately, the market expected SWERF to be fully operational by the end of calendar 1999. However, the first commercial plant at Wollongong has been in the commissioning stage since early in calendar 2001 and ENE's management – a group of people with an excellent track record as achievers – is very confident of the last few remaining problems being sorted out by June 2002. Happily for us, the stock market's disappointment with these delays to SWERF has resulted in the share price plummeting from over \$14 early in calendar 2001 to below \$8.00, which is the price we started buying. We are confident that ENE's negative impact on us in this period will more than reverse in the future.

On behalf of Bill Ryan and myself, I would like to take this opportunity to thank you for your support of the fund. 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.

Yours sincerely,

Rob Hopkins  
Australian Small Company Investment Manager