Australian Small company Investment Manager
ABN Number: 89 092 626 090

7 January 2003
PO Box R718
Royal Exchange
NSW 1225

Australian Small Company Investment Fund –
Newsletter for 6 months to 31/12/2002

In the 6 months to 31 December 2002 the fund returned –13.9%. The total return since inception in November 2000 is 1.6% which compares favourably to the Small Ordinaries Accumulation Index at –9.7% over that period, but considerably less than if we'd all left our money in the bank.

The negative return means there will be no distribution for the period. In any event, due to the difficulties of estimating the full year distribution after only 6 months actual figures, the manager has decided to make only one annual distribution in future, which will be after 30 June.

For the second consecutive half the fund has been impacted by negative market returns – minus 5.0% for the Small Ordinaries Accumulation Index. A number of our stocks have given negative share price returns over the period despite a strong or improving profit outlook. These include Ramsay Health Care and Macquarie Goodman Management, which we have spoken about previously. With stocks such as these we are happy to hold, confident that the improving fundamentals will at some stage overcome the current negative market sentiment.

Iress (IRE) is the fund's largest holding and its share price declined by over 20% during the six months. In just eight years, IRE has become the provider of over 90% of the information systems to the Australian and New Zealand professional equity markets. Despite a very difficult 2002 with the disappearance of a number of its broking and fund manager clients, IRE has indicated to the market that its "core earnings" for the year to December 2002 will be up approximately 25%. The consensus forecasts for 2003 indicate a further 7% growth, which is not greatly exciting. The real upside for the stock comes from the growth opportunities which management has indicated it is pursuing – new products, a move into Asia and a move to service the financial planning industry. The most promising of these is the move into the financial planning industry - an industry approximately double the size of the equity industry.

Fisher & Paykel Appliances and Fletcher Building have performed well for us. We do not typically invest in cyclical stocks such as these due to the problems of timing the moves in the share price accurately. However, these companies are benefiting from management initiatives as well as a strong building and construction market, which has resulted in very strong earnings growth.

On behalf of Bill Ryan and myself, I would like to take this opportunity to thank you for your support of the fund in what has been a difficult period. We will continue to work diligently over the coming year to achieve a satisfactory return and I look forward to giving you an update in 6 months. If you would like to discuss the fund's performance - historical or future potential - please ring me on 02 9004 1371

Yours sincerely,

Rob Hopkins
Australian Small Company Investment Manager

P.O. Box R718,
Royal Exchange,
Sydney NSW 1225

rhopkins@smallco.com.au
bryan@smallco.com.au
smallco@smallco.com.au

Ph 02 8256 1001
Ph 02 8256 1002
Ph 02 8256 1000