Concord Australian Equity Fund

Macquarie Professional Series®

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Fund Review at 31 December 2007

Fund performance*	1 month %	3 months %	6 months %	1 year %	Inception (pa) %
Performance before fees	-3.0	-3.0	4.3	20.8	24.3
Performance after fees	-3.1	-3.2	3.7	19.5	23.0
Benchmark	-2.7	-2.7	3.0	16.1	22.6
Excess return after fees	-0.4	-0.5	0.7	3.4	0.4

Top ten holdings	%
BHP Billiton Ltd	12.9
Westpac Banking Corporation	8.7
Brambles Industries	4.8
Woolworths Limited	4.8
ANZ Banking Group	4.5
James Hardie Industries	4.4
Macquarie Group Ltd	4.3
United Group	4.2
Gunns Limited	3.6
Billabong International	3.6
Total number of stocks	37

Distribution history	Cents per unit
December 2007	1.65
June 2007	11.35
December 2006	1.65
June 2006	3.56
December 2005	0.69

Industry weights	Fund %	Benchmark %
Consumer Discretionary	11.7	5.5
Consumer Staples	5.7	8.0
Energy	5.2	5.6
Financials (ex Property Trusts)	26.0	32.4
Healthcare	6.5	3.1
Industrials	11.6	7.9
Information Technology	-	0.4
Materials	29.7	23.8
Property Trusts	0.7	8.0
Telecom Services	0.9	3.8
Utilities	-	1.5
Cash	1.9	-
Total	100	100

Fund details	
Total funds under management	$184.6 million
NAV unit price at review date	$1.3550 (ex price)
Inception date	31 October 2005
Investment manager	Concord Capital Limited
Suggested minimum investment timeframe	At least 3-5 years
Benchmark	S&P/ASX 200 Accumulation Index
No. of stocks	Generally 25 – 40
Management costs	1.08% p.a. (inclusive of the net effect of GST)
APIR code	MAQ0424AU
Portfolio turnover	Approximately 40% per year
Buy/sell spread	0.25% / 0.25%
Minimum investment	Indirect investors: refer to the operator of your service Direct investors: minimum initial investment $50,000
Distributions	Paid semi-annually as at 31 December and 30 June

CONCORD CAPITAL

FORWARD thinking

Comment from Concord Capital

The Equity Market

The ASX200 ended 2007 with a further decline of 3.0% which followed on from November's 3.3% fall. This pulled the overall December quarter performance down to -3.5%. Over the calendar year the index gained 11.8% which positioned it quite respectably amongst other developed global markets. The outstanding driver over the year was the Resources sector which gained 45%.

During the month US interest rates were cut by a less than expected 0.25%. This did nothing for market confidence. The credit crisis really started to hit home locally with Centro Properties Group losing 81% of its value. The property sector took a dive of 8% for the month. The problem of refinancing tainted a number of sectors with Infrastructure, Utilities and Financials all combining to fuel the downward trend. Globally, Central banks took action to maintain a level of liquidity in the credit markets by providing up to US$600bn of extra cash to banks.

This volatility prompted Westfield to suspend $700m worth of asset sales but other corporate activity was evident with bids by Xstrata for Resource Pacific and Zinifex for Allegiance Mining. PBL completed its split into separate Gaming and Media vehicles and a number of other names came to market including BT Investments and Austock.

On the economic front the RBA kept rates on hold at 6.75% but warned of rising inflationary pressure. Company gross operating profits fell and inventory levels rose. Employment growth beat expectations and consumer confidence was shown to be bouncing back. The A$ gave back around 1% to the US$ to close at 87.5 cents, oil traded 8.3% higher at $95.95 and gold added 6.3% to close at $833.

In the sectors, Healthcare and Energy outperformed with gains of 2.6% and 1.4% respectively. Underperforming were REIT's (-8%), Industrials (-6.3%) and Materials (-3.8%). Individual stocks which outperformed for us during this volatile time included Orica (+13.6%), David Jones (+10.2%), Paperlinx (+9.5%) and SingTel (+4.8%). Underperforming stocks included Toll Holdings (-16.5%), United Group (-11.6%) and Oxiana (-11.5%).

Company updates

ANZ: CEO Mike Smith stated that local banks are facing higher wholesale funding costs due to the continuing fallout from the crisis in the US sub prime mortgage market. There were also indications that the banks would move to increase lending rates above and beyond rises by the RBA. ANZ held its AGM during December providing an update on its strategy. As part of its new strategy, ANZ is now targeting to double its profits in the next 5 years. Mike Smith noted that ANZ will not look to make large, dilutive acquisitions; rather it will look to focus on organic growth through its core geographies, building out its partnerships with only modest bolt-on acquisitions expected in the medium term.

Arrow Energy continued to deliver on ramping up production of coal seam gas from its Queensland operations and advancing its exploration and development projects in India, China and Vietnam. During the quarter, AOE acquired 50% of the Queensland Government owned Enertrade for $140m, funded by $120m of capital and $20m of debt. Enertrade, which consists of merchant gas and gas pipeline businesses, will contribute about $55m pa of EBIT based on 2007 results and will be immediately EPS positive.

Aristocrat Leisure's share price took a sharp drop early in the quarter due to a profit warning. ALL expects 2007 NPAT to be roughly in line with last year ($240m vs market estimates of $280m). The strong AUD and difficult overall market conditions and regulatory issues impacted in all three main regions. In December the stock picked up as the company announced the first $100m tranche of its on-market share buy-back program.

Over the calendar year BHP's share price has gained 61%. It achieved this on the back of higher commodity prices, strong free cash flows and increasing capital management. CEO Marius Kloppers stated that demand remains very strong for all of their commodity products and that BHP expects to post double digit production growth figures in the current financial year. The resource sector remained dominated by merger and acquisitions issues with BHP and RIO leading the way. BHP proposed a merger with RIO with talks still ongoing. BHP has been given until 08 February to announce its intentions or it must walk away for at least six months.

Billabong's management re-affirmed guidance of 15%EPS growth in constant currency terms, but downgraded to 5% - 10% due to the continued strength of the AUD. BBG suffers from a low translation of overseas earnings back into Australian dollars notwithstanding that it receives some positive impact from AUD strength on the purchasing side. The company has announced a small acquisition in the last few weeks which will compliment its product line-up. Billabong also said that underlying conditions in the US retail board sports market remained resilient.

Corporate activity continued to be a feature for Brambles in the December quarter. There was intense speculation that Asciano was set to make a bid for BXB at $17 in November. However, late in the quarter, Asciano announced that it would no longer pursue its interest in Brambles (most likely due to problems raising capital) and planned to dilute its 4% holding. As a result, the stock came under selling pressure.

Concord's Analyst visited Brambles' US and UK operations during the quarter. Under the management of new CEO Mike Ihlein, the company is set to accelerate growth in existing and new markets (such as Eastern Europe). BXB boasts capable management, a strong balance sheet and enviable competitive positions (particularly CHEP). BXB has received shareholder approval to buy-back up to 10% of issued capital. This should support the stock in the medium term.

BT Investment Management was spun off during the quarter from Westpac (although they retain approx 40%) and IPO'd at $4.80. This is significantly below our valuation. We see upside from prospectus forecasts with potential for operational leverage. We prefer this stock to Perpetual.

At its AGM CSL Limited issued a profit warning. They said the business had performed as per expectations but that the strength in the AUD would negatively affect earnings translation to the extent that NPAT may be reduced by approximately $65m to between $670m and $700m. It ended the quarter strongly though and outperformed after holding its annual R&D briefing day. Their commentary around ISCOMATRIX remained positive and Merck made upbeat comments on Gardasil noting increased penetration of the US market.

David Jones delivered 9.7% sales growth in the previous quarter but due to interest rate rise worries this had minimal effect on the share price. However during the latter part of the period the stock gained significantly on investor speculation that the stores would have another strong Christmas trading period. We still see upside to this stock as store expansion continues and the introduction of a general purpose credit card is in the pipeline.

Fairfax Media declined after announcing that the acquisition by Macquarie Media Group of its nine commercial radio licences and the related narrowcasting licences serving five regional areas in South Australia and Queensland will not proceed. A number of conditions set regarding the sale have not been met.

Gunns Limited: The $1.7bn Tamar Valley pulp mill in Tasmania was approved by the former Australian Environment Minister Malcolm Turnbull, subject to conditions. This announcement had a significantly positive effect on the share price during the first week of October which has held up since. Towards the end of the quarter Gunns also announced their intention to buy the remainder of Auspines shares.

The insurance sector suffered a difficult quarter. IAG indicated that they would sustain a loss of $105m, net of re-insurance due to the NSW hailstorms and that it was downgrading its FY08 insurance margin guidance from 11-13% top 9-11%. This was on top of their downgrade to guidance in late October. In separate news IAG announced the appointment of Duncan West (ex Promina) to head up its commercial business. We continued to establish our position in the stock.

James Hardie conducted their annual US tours during the quarter. JHX's presentation outlined plans to continue market penetration. They erred on the side of caution with their new home starts assumptions but still suffered a share price drop as the credit crisis continued to impact directly on their sector.

JB Hi Fi sales continued to gain momentum through the quarter as Christmas approached. Rising interest rates did nothing to slow sales. However, the share price did come off its November highs in line with the market. Their outlook remains strong and the addition of new stores will increase their customer base further in 2008.

In December Macquarie Group Ltd received advanced accreditation under the new Basel Capital Accord, enabling use of the most advanced internal ratings based approach in assessing regulatory capital position. As part of a consortium they announced that they will commit US$500m for a 16% stake in Puget Energy.

Concord re-established a position in NAB after it fell away from its previous highs. During the quarter it suffered due to its exposure to the UK banking sector and hence credit crisis fallout. In December it agreed to buy privately held South Dakota based Great Western Bank for US$798m as it expands it agribusiness model into the US. Great Western bank has assets of more than US$3.4bn and more than 100 branches across six states in the agricultural region of the US Midwest.

Orica fared well over the quarter mainly due to the fact that another player in the Australian ammonium nitrate market Dyno Nobel announced the indefinite suspension of its Moranbah expansion. This boosted Orica's stock as it now appears that the market is likely to achieve supply/ demand equilibrium over the mid term. Furthermore, the geographical location of Orica's plants mean that it is the probable alternative to fulfil the ammonium nitrate requirements for contracts already struck by Dyno Nobel.

Origin Energy had a solid quarter as management focussed on the smooth running of new E&P projects such as BassGas and progressing new projects such coal seam gas production, newly proposed gas fired power stations and the Kupe gas project in Queensland.

Oxiana announced that the cost of its Prominent Hill copper/ gold development in SA has blown out by 30% to $1.08bn. Scope changes, a tight construction market and the rising cost of materials and equipment lifted the budget from the previous $850m.

Paladin Resources announced that ramp and remediation was making good progress at the Langer Heinrich Uranium Project in Namibia with production of 274,360 pounds for the preceding quarter. They also continue to focus on exploration and evaluation of Australian projects, in particular the Mount Isa Uranium joint venture in Queensland and the Bigryli Uranium joint venture in the Northern Territory. A loss of US$14.5m was made during the September quarter due to operational difficulties. However, their balance sheet remains strong with net assets of US$1.3bn including US$166m in cash.

Pan Australia announced that it had brought forward the anticipated start up of production at the Phu Kham Copper-Gold mine in Laos by several months and that the project remained within the US$241m budget. This gives a projected start up date of late 2009. The company also arranged a US$75m debt facility to accelerate expansion of Phu Kham and to increase exploration.

Paperlinx faced an increasingly challenging market. At its AGM the company warned of higher pulp and fuel costs. Sales were weaker in key areas. The market still appears to have excess paper capacity and the stock fell heavily in October. The sharp drop was partly attributable to the weak US dollar early in the quarter. However little news throughout the period did allow a gradual recovery and the stock clawed back 10% in December.

We have continued to switch out of Perpetual due to recent underperformance. PPT held its annual strategy day in December but this provided little new information. Over the period PPT separately announced that it saw net outflows from its FUM.

Platinum Asset Management continued to suffer due to the strength of the AUD (which reduces FUM) and through weak fund flows. We still continue to like the stock for the company's underlying, founding principles and added to our position during the quarter.

Over the calendar year RIO's share price has increased by 82%. The company has benefited from strong commodity prices, sector consolidation themes and positive sentiment towards stocks leveraged to the growth within China. During the quarter the biggest catalyst for the stock price was the 3 for 1 takeover approach from BHP. RIO management moved quickly to illustrate that this offer undervalued the company. BHP has until February to make their intentions clear.

We continue to like SingTel for its steady earnings growth, strong balance sheet with significant flexibility for investments, excellent FCF generation and access to the high growth Asian markets.

Sonic: The healthcare sector outperformed during the quarter and was driven by consolidation and acquisitions. Sonic was prominent in this activity with its announcement that it now had 100% ownership of the German Schottdorf Group. Sonic will continue with its search for acquisitions and towards the end of the quarter was very close to announcing two such deals in the US. As the group builds on its presence in both the US and in Europe future acquisitions will become increasingly synergistic.

Spotless Group has made a number of changes at the Executive and Board level, which is a positive development, following a sustained period of underperformance. The new team has undertaken an intense review of the business and identified a range of costs to be taken out of the business during 2008, with $15m-$20m annualised cost savings expected.

While the Australian Services business continues to perform well, Spotless' growth is being hampered by its Retailer Services division. The company will attempt to turn this business around in the near-term; however the Board continued to investigate whether or not Retailer Services is ultimately found to remain a core plank Spotless' growth plans. We expect that the 1H08 results will be soft on the back of a poor Retailer Services result and increased costs associated with retrenchments. Nevertheless, the company now has the potential to deliver significant performance improvement in the medium term. We believe that the stock represents good value at current prices.

Suncorp: The insurance sector suffered a difficult quarter. Suncorp was hurt by a large claim loss after hailstorms hit NSW in early December. Suncorp indicated its loss would be $150m to $180m. It would provide the market with a further update on its insurance margin and integration process (with Promina) in late January. We have added to our position to take advantage of the price weakness.

Tattersall's was broadly flat after announcing the acquisition of the remaining 50% of its European Gaming Group (50/50 JV between TTS and Macquarie Group). Whilst no acquisition price was disclosed, TTS indicated: 1) Acquisition will be debt funded; 2) Completion is expected in early January; 3) TTS and Talarius will invest GBP24m over the next 3 years into gaming machines, reconfiguring gaming floors etc. TTS also indicated that they would be seeking further opportunities to acquire more venues in the UK. They are also confident of achieving the previously announced EBITDA forecast of $90m in FY08.

Late in the quarter, Toll announced its intention to acquire BALtrans Holdings, one of Asia's largest freight forwarding and logistics companies. The transaction is valued at A$365 million. The transaction is in line with Toll's desire to build an Asian logistics business, however it appears that Toll has paid a hefty price for this business.

With the uncertainty surrounding its Virgin Blue sell-down combined with its small Brambles holding, we remain cautious on a further investment in Toll in the near term. Further, we are concerned about the high prices of acquisitions in Asia. Nevertheless, the stock has been sold down quite heavily in recent weeks and is starting to look attractive from a valuation perspective.

United Group continues to capitalise on a buoyant pipeline of work across all its sectors - particularly the Infrastructure segment. Following its acquisition of US facilities management UNICCO, management will need to focus on bedding down its Property Services business, which now represents over 30% of earnings. The global property outsourcing market is an enormous opportunity for UGL, particularly now that the company offers an end-to-end service that delivers significant improvements and cost benefits to its clients. The US property services market alone is estimated to be worth approximately US$160 billion in 2007.

Wesfarmers: Coles Group Ltd shareholders voted overwhelmingly in favour of the Scheme of Arrangement which resulted in Wesfarmers acquiring the Coles group. The stock traded down in December as investors contemplated the acquisition during the first full month of ownership. The stock also fell with the market as there was a lack of any other company news with regards their other enterprises.

Westfield is a high quality, well-managed business. WDC's income stream has been keenly sought after, as investors increasingly look for sources of secure but growing income streams. We reduced our holding during the quarter on its price strength. Towards the end of the period the stock suffered from the sub-prime crisis as the REIT was hit. Subsequently Westfield have put plans on hold for the sale of up to $700m worth of property in the UK and New Zealand due to instability in the global debt and equity markets.

Westpac completed the listing of its investment management business in December at an initial price of $4.80. Westpac will retain majority ownership of circa 62%. Westpac also announced that it would acquire the RAMS brand, franchise network and associated mortgage origination, servicing systems and contracts for $140m in cash. In addition, Westpac saw the departure of its head of Retail Business, Mr Mike Pratt. A replacement for Mr Pratt has not yet been named.

At their AGM **Woolworths** indicated it may consider a capital return in 2008 and re-iterated earnings guidance for FY08 for NPAT growth of between 19% to 23%. CEO Mike Luscombe noted the increasing price of transport and commodities was causing widespread price rises by manufacturers. It is interesting to note that food retailers such as Woolworths are generally a beneficiary of food price inflation. The market is awaiting further developments on the possible acquisition of The Warehouse Group although there are a number of future hurdles to overcome such as the NZCC appeal against the decision to allow the takeover to proceed.

Woodside announced that the Australian Government had given the green light for their $12bn Pluto liquefied natural gas development of the coast of WA, subject to environmental conditions. The stock price rallied during December despite having to shut down two oil production facilities due to Tropical Cyclone Melanie.

How the Fund is managed

The Fund is managed in accordance with Concord Capital's Australian equities investment strategy which offers a concentrated portfolio of approximately 25 to 40 stocks which the manager believes are superior businesses and have promising long-term performance prospects.

The manager believes that these companies typically exhibit key characteristics such as:

- high return on capital employed and shareholders equity;
- strong balance sheet;
- below average price/earnings ratio;
- a strong industry outlook with appropriate strategic positioning by the company;
- an established business model with identifiable competitive advantage and growth opportunities; and
- proven and reliable management.

*Past performance is not a reliable indicator of future performance. The returns on the fund assume distributions are reinvested.

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