

Specialised Private Capital Ltd AFSL 246744

Income-Plus Fund ARSN 106 910 392

Performance Report September 2007

Fund Information

Fund Size	\$41.4MM	Domicile	Australia
Strategy	High-yield securities and investments	Denomination	Australian dollar
Unit Price	\$0.9739	Management Fee	0.77%
Distribution	\$0.004 (Sept quarter)	Performance Fee	Nil
Liquidity	Buy: Monthly Sell: Quarterly		

Fund Performance to 30 September 2007 (%)

	3 months	1 year	2 years p.a.	3 years p.a.	Since inception p.a.
Income	0.8	10.3	8.9	9.1	8.3
Growth	-1.4	-4.2	-2.3	-1.5	0.3
Total	-0.6	6.1	6.6	7.6	8.0

Market Commentary

Credit turmoil has continued, unabated in recent months. We passed what now appears to have been the eye of the storm during September and two Wall Street banks have since lost their CEOs to the rout (Merrill Lynch and Citigroup). Credit-related losses are now expected to total in the hundreds of billions globally, but it will take some time for the full toll to be known. In addition, we expect higher credit spreads will affect corporate margins in the US, though to what extent we don't know. On a positive note, we are seeing credit terms move more in favour of lenders and as well seeing higher credit spreads.

Generally, Australian credit markets appear relatively unscathed, save for a few high profile credit fund losses and Rams Home Loans. The impact here has been less about defaults than about the ability to borrow and the increased cost of borrowing (RAMS Homeloans being a victim of both factors). Credit margins have increased and these will likely have repercussions if they persist – one, for example, being that banks will pass on the additional costs to borrowers. Importantly, the Australian mortgage market does not have a sub-prime market as does the US. The closest we come is the low-doc loan segment, which accounts for about 1% of loans in Australia, whereas subprime accounted for around 15% of loans in the US. Hence we don't expect the widespread mortgage defaults seen in the US to migrate to Australia.

This quarter we report our first ever negative quarterly return (following 15 straight consecutive positive quarters since inception). The low cash distribution this quarter (0.485 cents per unit) is largely the result of falling prices in the Fund's listed positions (which account about a quarter of the portfolio) as markets globally react to credit worries. All the Fund's investments continue to pay income when due.

The finalisation of the September unit price and the distribution are late – this has been because of another delay with reporting from one of the investments we hold. These delays have now become persistent, so much so that we recently gave instructions that the investment be redeemed. With this investment, it appears we have been too patient with the repeated reporting delays. This time, we took the ultimate sanction, which is to dispose of the investment, so as to avoid such delays occurring again. We expect the redemption process to be complete by mid-December, which means we may still be affected by their delays until then. We apologise for the

Disclosure

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Returns are calculated on the basis of end of quarter redemption prices and are net of investment management fees and expenses. Returns are pre-tax and assume reinvestment of income at cash rates. The returns represent past performance only and are not indicative of future performance. The value of an investment may rise or fall with changes in the market. Inception date: 31 December 2003

inconvenience these delays have caused.

We expect our income levels to remain strong and we expect all investments to pay interest income when due. Our outlook for credit markets remains cautious, as it has been for some time. We are currently holding more than 20% of the Fund in cash and are likely to hold cash at these levels while turmoil remains. We expect that a more risk-averse credit market will lead to interesting opportunities for the Fund.

Portfolio Analysis				Return / Risk Statistics	
Country	Exposure	Asset type	Exposure	Annualised since inception (% p.a.)	
Australia	39%	Wholesale funds	54%	Return	8.0
Canada	18%	International - listed	18%	Standard Deviation	2.3
Europe	24%	Australia - listed	8%	Sharpe Ratio ($R_f = 6.75\%$)	0.5
United States	21%	Private loans	13%	Worst quarter performance (%)	
				Income-Plus Fund	-0.6
				ML Global High Yield Index	-4.2

Note: figures do not add to 100% as they represent net gross exposure for international investments.

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