



# FOCUS

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## Welcome



I would like to welcome you to the first edition of Focus, the newsletter of the MacarthurCook Group.

The past three to four months have been extremely busy for MacarthurCook.

During September 2003 we were reinstated on the official list of the Australian Stock Exchange and have since enjoyed some solid investor support. During December, we acquired the Responsible Entity of the National Australia Mortgage Fund, now renamed the MacarthurCook Mortgage Fund. As this newsletter goes to print, we are launching the MacarthurCook High Yield Income Fund, designed to provide investors with the potential for greater returns than a traditional mortgage fund.

We have also launched the MacarthurCook Industrial Property Trust, providing investors with exposure to a diversified portfolio of industrial properties, listed property trusts and cash-type assets.

Meanwhile, plans are well underway for the launch of another property trust and we will provide you with details in the near future.

MacarthurCook is a young organisation, but – as any parent will know – one of the great benefits of youth is boundless energy. I can assure all our investors and shareholders that we intend to continue working swiftly while devoting our energies to the best possible management of your property and mortgage investments.

Yours faithfully,

Craig Dunstan  
Managing Director  
MacarthurCook Limited

## The Story So Far

MacarthurCook aims to become one of Australia's leading managers of property and mortgage funds.

On November 7, 2003, we acquired the Responsible Entity of the National Australia Mortgage Fund, since renamed the MacarthurCook Mortgage Fund. This Fund brings to MacarthurCook more than 7,000 investors and approximately \$400 million of assets. We are keen to ensure that the Fund continues to provide solid yields, and are currently putting in place a number of improvements – including a lower fee structure – that will help improve investor returns.

We are also in the process of launching the MacarthurCook High Yield Income Fund. This Fund is suited to investors seeking higher returns than a traditional mortgage fund, through exposure to higher-risk mortgages, property-based securities and fixed-income securities.

Investments in both the MacarthurCook Mortgage Fund and the MacarthurCook High Yield Income Fund can now be made through our new Product Disclosure Statement. For a copy, please phone 1300 362 117 or speak to your financial adviser. We have also launched

the first of our property funds, the MacarthurCook Industrial Property Trust. This \$70 million Trust will invest primarily in income-producing industrial properties. It will have the added flexibility of investing up to 35% of its assets in fixed-interest securities and listed property trusts that focus on industrial property. The initial portfolio contains seven properties across three states with leading companies such as Amcor, Visy and ACI as tenants. The Trust's initial cash distribution is forecast at 9% pa.



# Our Focus

MacarthurCook's corporate mission – and sole focus – is to become one of Australia's leading managers of property and mortgage assets. We aim to achieve this through:

- designing innovative solutions to clients' investment needs
- disciplined management of property and mortgage assets
- forming alliances with other organisations in areas such as distribution, back-office support and other non-core activities, and

- creating a culture where our staff are motivated to perform at their best, and are able to share in the success of the company.

Why choose to specialise only in the management of mortgages and property assets? We believe that there are many advantages.

Firstly, we focus only on what we know best – property and mortgages. Specialising means that we don't spread ourselves too thinly over many areas.

Secondly, while many fund managers tend to focus almost exclusively on sharemarket investments, we believe that property and mortgage investments offer our investors a range of unique and important benefits, particularly those investors seeking to diversify their portfolio across a range of income-producing assets.

MacarthurCook exists to help investors build wealth. We will always aim to produce above-average investment returns, although we won't promise unrealistic investment returns that undermine investors' trust.

# Industrial Property Trust

MacarthurCook has now launched its latest investment product; the \$70 million MacarthurCook Industrial Property Trust.

This Trust is designed for investors who want an investment that pays relatively high cash distributions every three months. It also offers the potential for capital growth for the medium to long-term investor.

The Trust's property portfolio will initially consist of seven industrial properties located in the established industrial areas of Laverton North and Clayton in Victoria, Sumner Park and Eight Mile Plains in Queensland, and Canning Vale, Welshpool and Wangara in Western Australia. The properties are office and

warehouse buildings, which are used for a combination of storage, distribution and manufacturing purposes, and are currently valued at about \$64.7 million. Major tenants include Amcor Packaging (Australia), Visy Industrial Plastics, ACI, Tyco and Corning Cables Australia (a division of Dow Corning).

- Initial capital raising - \$32.4 million.
- Forecast initial cash distribution – 9% pa.
- Closing date for applications – March 31, 2004.
- ACT NOW! For more information on the MacarthurCook Industrial Property Trust, please phone 1300 362 117.



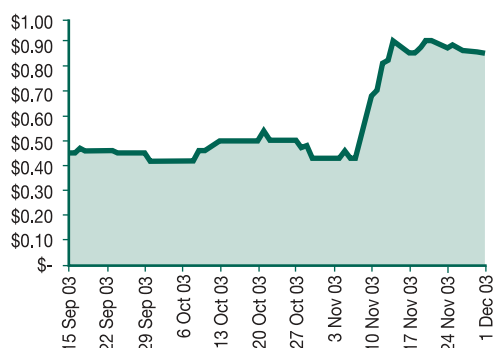
# To Our Shareholders

The last three to four months have been particularly exciting ones for our shareholders.

On September 15, 2003, we were reinstated to official quotation on the Australian Stock Exchange (ASX) as MacarthurCook Limited, with the code MCK. Since then, a number of significant announcements have increased our exposure in the marketplace, with our shares receiving a strong level of support. One of the most important announcements was the acquisition of the Responsible Entity of the National Australia Mortgage Fund, on November 7, 2003.

At a meeting on December 17, 2003, shareholders approved the placement of 9 million shares resulting in Ascalon Capital Managers (a subsidiary of the St George Bank Group) becoming MacarthurCook's largest shareholder, holding about 19.7% of the company's issued capital, and the entry on the register of other institutional and professional investors. Shareholders also approved the appointment of Ray De Lucia (CEO of Ascalon) as a director and the issuing of options to unitholders in the National Australia Mortgage Fund.

The chart below illustrates MacarthurCook's share price since reinstatement on September 15, 2003:



# A Bright Future for Mortgage Funds

During the past couple of years, declining interest rates and a volatile sharemarket have led to mortgage funds becoming an extremely attractive investment. In fact, during the past four years, the level of funds under management in public offer mortgage funds has grown by an estimated 103% to more than \$12 billion. This is significant growth.

During the past two to three months, however, the investment environment has changed. Australia has experienced two interest rate rises of 0.25% each (with possibly more to come), and the sharemarket has experienced a muted recovery.

Within this new environment, what does the future hold for mortgage funds?

The answer lies partly in the new breed of mortgage funds now being offered to investors.

Traditional mortgage funds, such as those offered by Perpetual, Colonial First State or Australian Unity, tend to have a very conservative mortgage portfolio. They usually lend up to 66% of the value of commercial income-producing property and over a three-year period. Also, these funds do not consider development or construction loans, loans on specialised properties or bridging finance.

The new breed of mortgage funds, however, are better equipped to deal with the changing investment environment. These funds lend at a higher loan to valuation ratio, lend for shorter periods of time (usually about 12 months) and will

consider construction finance, bridging finance and loans for specialised property. Compared to traditional mortgage funds, these funds invest in more risky loans. However, the trade-off for increased risk is that the interest rates on these loans tend to be higher. This translates into higher returns for investors, compared with traditional mortgage funds.

Of course, with the new breed of mortgage funds, one of the key roles of the manager is to ensure that this increased risk is managed appropriately. To this extent, investors and financial planners should consider some of the following questions when evaluating a mortgage fund:

1. What is the maximum loan to valuation ratio at which the fund will invest? Before a mortgage is approved, an independent valuation is obtained to assess the market value of the security property. A loan to valuation ratio is then applied, ensuring adequate borrower equity in the property.
2. How large is the fund's mortgage portfolio? A larger fund gains the benefit of greater diversification of individual loans.
3. Does the fund provide a good spread between its mortgage portfolios? Are all the fund's mortgages secured against commercial or residential properties or is there a good spread between office, industrial, retail and residential? The risk management approach to the mortgage portfolio

should be extremely strong. Mortgages should be diversified by geographic location, sector, loan size, interest rate type and maturity profile, according to a rigorous set of benchmarks.

4. What is the split between fixed and variable loans? This will give a good indication of leverage to changes in interest rates. In a rising interest rate market you should look to funds with a low percentage of their portfolio exposed to fixed-rate loans. This will reduce the time lag to increase interest rates for borrowers.
5. How experienced is the manager? How many lending staff and loan administration staff do they have? How many years of experience?
6. What is the default history of the fund?
7. Does the fund have strong relationships with key mortgage originators? Such relationships enable the manager to quickly convert cash into mortgages during a relatively short space of time, thus ensuring strong investor returns.

MacarthurCook offers investors both a traditional mortgage fund – the MacarthurCook Mortgage Fund – and a 'new breed' mortgage fund – the MacarthurCook High Yield Income Fund.

For further information or for a copy of the Product Disclosure Statement, please phone 1300 362 117 or speak with your financial adviser.





# INVESTMENT REPORT

## The Investment Market

As MacarthurCook specialises purely in the management of mortgage and property assets, this investment review will consider two of the key drivers that affect our investment decisions; the outlook for interest rates and the industrial property market.

### Outlook for interest rates

Over recent months, the Reserve Bank of Australia (RBA) implemented two interest rate rises of 0.25% each, with the official rate now at 5.25%. With the Japanese, European and American economies continuing to struggle, governments there are continuing to hold interest rates at close to record lows to help stimulate spending. In Australia, on the other hand, economic growth has been clearly outstripping the larger world economies, with excessive borrowing for housing being a major area of concern for the RBA. The RBA seems determined to 'rein in' rising property values.

In this context, we see the RBA returning interest rates to a more neutral setting, which would be around 5.50% to 6.00%, and we would expect that interest rates will be around 6.00% by June 2004.

However, the RBA's tightening of interest rates should be less dramatic than in 1994 for several reasons; namely, lower inflation, a higher level of household debt, and the negative impact that a rising \$A will have on Australian exporters.

### Outlook for industrial property in states impacting upon the MacarthurCook Industrial Property Trust

**Victoria** – Melbourne is Australia's largest industrial property market in terms of land supply. It accounts for around 80% of Australia's container traffic flows through the Port of Melbourne and is Australia's manufacturing heartland. Melbourne's road network is arguably the best in Australia which has resulted in it successfully eroding Sydney's dominance of the warehousing and distribution sector. We believe that the strong demand for Melbourne industrial property will continue during 2004 as both private investors and institutions look to increase their portfolio weightings in this sector.

**Western Australia** – The performance of the Perth industrial market is heavily reliant on the success of the mining and resources sectors. Based on the positive outlook for these sectors and the improved outlook for the export market as the global economy recovers, we believe the Perth industrial market will perform strongly in 2004. This, combined with the dearth of investment grade stock, will maintain downward pressure on investment yields and positive capital growth.

**Queensland** – The Brisbane industrial market has generated strong investment returns over 2003. It benefits from an excellent road infrastructure network similar to Melbourne's. This factor combined with a proactive State Government has resulted in several major corporations either relocating or establishing their head office operations in Brisbane. We expect that demand for Brisbane industrial property will remain strong in 2004 and that limited availability of investment grade stock will positively impact on capital values.

## Investment Returns

to 30 November 2003

Fund	1 yr %	3 yrs % pa	5 yrs % pa	7 yrs % pa
Mortgage Fund	4.5	4.7	5.0	5.2
High Yield Income Fund	N/A	N/A	N/A	N/A
Industrial Property Trust	N/A	N/A	N/A	N/A

Returns are calculated on the basis of end of month redemption prices assuming all distributions are reinvested. They are net of management fees, charges, expenses and prior to tax considerations. The returns outlined above represent historical performance only. Past performance is not a reliable guide to future returns as future returns may differ from and be more or less volatile than past performance.

N/A = Both the High Yield Income Fund and the Industrial Property Trust are new funds and hence, they have no performance history.

**Important information:** This information has been prepared as general information only. It is not intended to take the place of professional financial advice and should not be taken as such. While every care has been taken in the preparation of this information, we reserve the right to make corrections. Past performance is no guide to future performance. Applications to invest in the products featured in this newsletter may only proceed on an application form attached to the current relevant product disclosure statement which you should consider before deciding to invest. Copies can be obtained from your financial adviser, or from MacarthurCook Limited, ABN 64 009 110 463, Level 4, 30 Collins Street, Melbourne VIC 3000 (phone 1300 362 117).