



19 July 2004
PO Box R718
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NSW 1225

**Australian Small Company Investment Fund -
Investment Update & Performance for 6 months to 30/06/2004**

Please find enclosed your distribution and tax statements for the year to 30 June 2004.

In the 6 months to 30 June 2004 the fund returned +20.0% and the ending unit price, pre distribution, was \$1.4793. For the last year the fund returned +53.2%. We regard both of these results as being satisfactory.

Macquarie Goodman Management, Sydney Futures Exchange and Iress, stocks that we have previously spoken about and in which we continue to retain significant holdings, were major contributors over the last six months as they were in the previous six months.

Macquarie Communications Infrastructure Group (MCG) has been one of the major profit contributors to the fund over the last year. MCG has as its major assets the transmission towers and related equipment used by the ABC and SBS to broadcast their television and radio signals. The broadcast of the analogue signals is an extremely stable, strong cash flow, mature business, with very little growth. However, MCG has won most (>95%) of the contracts for the digital TV transmission, which is currently being rolled out. Indeed, no other company had the Australia wide infrastructure to seriously compete, except on a few isolated sites. These very long term, Government backed contracts have enabled MCG to forecast an almost doubling of its distribution from FY03 to FY05. Consequently the share price has appreciated strongly - by more than 50% over the last year.

MCG's distribution growth in FY06 is less certain at this stage, but management are looking at a number of opportunities to keep the business growing. We continue to monitor these events and evaluate our options in relation to the stock.

In our Investment Update, 6 months ago, we discussed our holdings in MYOB and Reckon - the two companies, which dominate the SME and personal accounting software sector of the Australian market. Reckon has continued to perform, was up over 50% over the period, and is now one of our largest holdings. During the period MYOB acquired Solution 6. While the acquisition has significantly increased the customer base, MYOB paid a very full price and, in our view, it has added considerable medium term earnings risk. This is because a significant number of Solution 6's customers were dissatisfied due to years of neglect and the acquisition has increased MYOB's overseas earnings risk. The stock market did not share our cautious view and reacted positively to the acquisition, placing the stock on a CY04 PER of well over 20x. Consequently, we recently sold our MYOB holding.

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 period to achieve a satisfactory return and I look forward to giving you an update in 6 months.

Yours sincerely,

Rob Hopkins
Australian Small Company Investment Manager