



## van Eyk Three Pillars – June 2008 Quarterly Report

### Financial Results to 30 June 2008

Company Results – June 08		
	Before tax	After Tax
Profit (12 months to June 08)	(\$25,654,305)	(\$16,548,630)
NTA	\$1.06	\$1.06
Share Price (VTP) at 30 June 08		95 cents
VTP Stock Turnover in June 08 quarter		<b>3,433,464</b>

LIC Characteristics – June 2008		
	Actual %	Permitted %
Blue Chip	47.0	0 – 60
Growth	19.7	0 – 60
Special Situations	25.9	0 – 60
Cash	7.4	
<b>No. of shares in portfolio</b>		<b>34 stocks</b>

### Performance Commentary

The company listed on 28 January 2004, with a net asset backing of 97 cents per share, while as at 30 June 2008 it had increased to \$1.06 per share. Since inception total dividends of 35 cents per share fully franked have been paid.

For the June quarter, the portfolio's gross return was 0.27% versus the ASX 300 Accumulation index return of -1.74%.

The management expense ratio\* for the twelve months to June 2008 was 1.17%.

\*Based on total operating expenses and management fees over net assets

Top 10 Holdings	
Holding	% Portfolio
BHP Billiton	14.9%
Rio Tinto	5.4%
Origin Energy	5.0%
Commonwealth Bank	4.8%
National Australia Bank	3.9%
Westpac	3.3%
ANZ	3.1%
Bradken	2.9%
Beach Petroleum	2.8%
Downer EDI	2.8%
	<b>48.9%</b>

### Investment Process and Portfolio Construction

The Three Pillars portfolio results from a disciplined process that incorporates quality assessment, classification, and valuation.

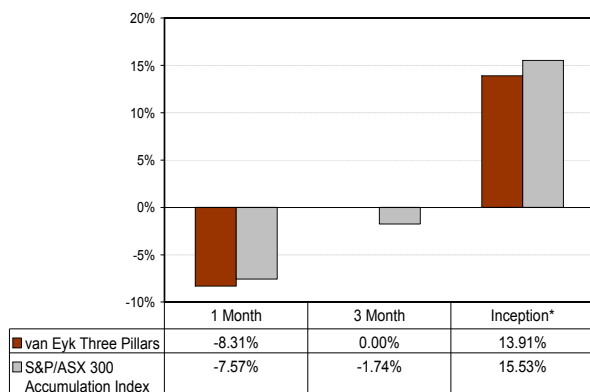
Three sub portfolios of distinct style, namely the Blue Chip, Growth and Special Situations, comprise the overall portfolio, giving a diversified outcome. The sub portfolios are blended with consideration given to the appropriate weightings between large and small companies and industry sectors.

- ❑ *Blue Chip* – Selected from the Top 100, utilising a free cash flow valuation methodology. The aim is to construct a diversified 12 stock portfolio of quality companies at a reasonable price. The 'Blue Chip' is the most conservative of the three sub portfolios, and aims for low turnover.
- ❑ *Growth* – The 'Growth' selection is taken from the 'Dynamic Growth' and 'Stalwart' stock classifications, which are at the high end of the quality scale. The aim is to select up to 12 quality growth companies at reasonable prices, whilst maintaining diversification across sectors.
- ❑ *Special Situations* – The 'Special Situations' portfolio is comprised of up to 12 'value' stocks, which have the potential for market re-rating, turnaround or takeover. The selection is taken from the lower end of the quality scale and as such has a contrarian flavour. This selection is the most volatile of the sub portfolios.



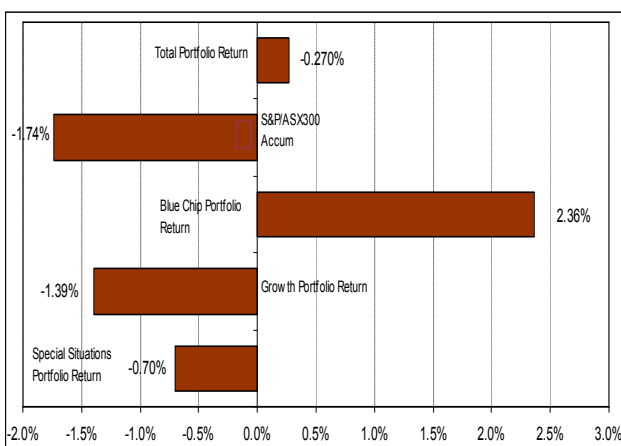


**Returns (Net of Expenses and before all Taxes)**

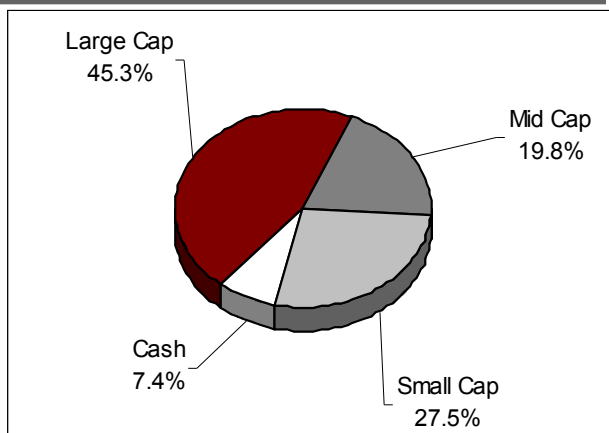


\*returns shown are annualised since inception numbers

**Quarterly Return Attribution (Gross)**



**Market Cap Exposure**



**Market:**

The ASX 300 Accumulation index fell 1.74% over the quarter, with a very sharp fall in June of 7.6% ending the financial year on a low note and testing the support levels reached in mid March. The volatile period was dominated by the massive rise in crude oil prices, reaching over USD\$140 per barrel, and a re-emergence of credit market concerns marked by a significant widening of credit spreads and more talk of government bailouts in the US. The period also contained some unsettling news flow on the health of the US economy with continued declines in property values and very poor consumer and business confidence indicators.

Domestically, the RBA enforced slowdown is taking effect as retail and credit conditions have turned down sharply and consumer and business confidence indicators softened further. Nonetheless, the very strong terms of trade outlook from continued high bulk commodity and energy prices will continue to see a “two tier” Australian economy.

GICS Sector performances for the period;

- Best sectors;
- Energy +34.3%
  - Materials +11.8%
  - IT +4.9%
- Worst sectors;
- Cons Disc -22.2%
  - Industrials -16.1%
  - Financials -11.7%

**Portfolio:**

Over the period the exposures to energy, bulk commodities, and resources services provided an underpinning to what essentially was a poor period for the Australian market. While sentiment is almost overwhelmingly now negative (a contrary indicator to us) and the love affair with financial engineering and buying stocks on margin is a distant memory, it is a little too early to call a bottom. However, significant value is now appearing in areas. The environment for quality and valuation based stock picking is set to improve over the year.

Stocks producing largest contributions to performance during the quarter;

- BHP Billiton +2.24%
- Origin Energy +1.88%
- Rio Tinto +0.58%

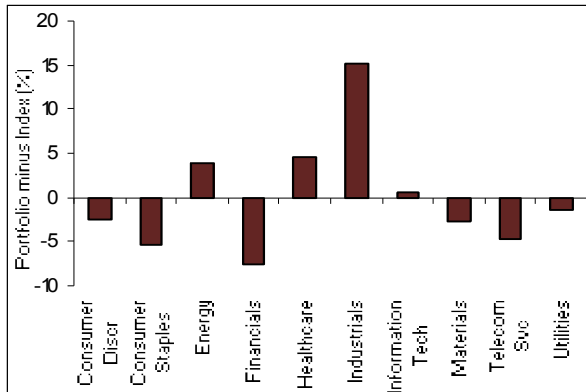
Stocks detracting for the quarter include;

- Toll Holdings -0.98%
- Transfield Services -0.57%
- Independence Group -0.55%

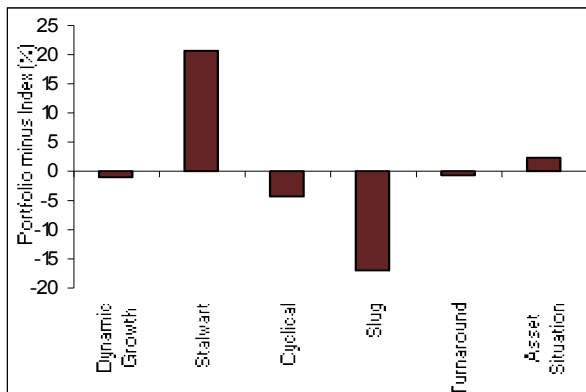




**GICS (Global Industry Classification Standard)  
Sector Exposure Relative to Index**



**van Eyk Stock Classification Relative to Index**



**Aggregate Portfolio Ratios**

	ASX300 Index	van Eyk Three Pillars
Price Earnings	13.6	14.0
Price to Book	2.1	2.7
Dividend Yield (%)	4.7	4.0
Price to Sales	1.9	2.0
Return on Equity (%)	15.7	26.0

**Portfolio (continued)**

The overall portfolio strategy remains largely unchanged and in our view well positioned for the current environment. The sector exposures maintain an overweight to healthcare, energy, diversified miners and selected high quality industrials, in particular those leveraged to the ongoing high levels of capital spend in resources and essential infrastructure. The portfolio remains underweight in financials, property, utilities and consumer. The portfolio also remains heavily tilted towards 'quality' companies as defined by our proprietary criteria.

**Outlook:**

On the back of the recent falls, aggregate market valuations look quite reasonable at the time of writing, however, we see no immediate potential for the market to make significant gains in the face of not only considerable macro challenges but a growing slew of soft economic data and fading confidence indicators. From a bottom up perspective sales and margin pressure will impact further on the earnings outlook and circumspect guidance at the company specific level will not comfort investors.

The re-emergence of problems in the credit market, widening credit spreads and the bailout of Fannie Mae and Freddie Mac, have cast a further pall on world financial markets, and the sheer excesses in the world financial system over the last decade will take some time to resolve as balance sheets are slowly repaired. Central bankers will no doubt continue to provide infusions of liquidity in an effort to counteract deflationary forces, however the only real long term solution is a significant de-leveraging which will take some time.

A significant correction in crude oil prices is arguably the other key catalyst in restoring investor confidence and softening the unsettling inflation outlook, but with the ongoing geopolitical tensions and continued supply issues in the face of robust demand we ascribe a modest probability of this occurring. While there is gathering evidence of some demand destruction in oil as consumers drive less, it will take a reasonable period of time to offset given the structural supply problems in the world energy complex, which simply cannot be resolved in the short term given the under investment in exploration, production, transport and refining capacity over the last two decades.

We continue to expect an environment of continued high volatility over a broad trading range in the indices, and we see an increase in good value opportunities opening up over a growing number of stocks on our watch list. We expect some support in the short term for the Australian stock market as reasonable valuations and strong dividend yields should help limit downside. We aim to exploit ongoing volatility by focussing on our key criteria of quality, growth and valuation.

