Greencape Wholesale High Conviction Fund

Fund report and commentary – 30 June 2007

Overview: During the quarter the Greencape Wholesale High Conviction Fund (Fund) posted a return of 10.9% (after fees)* compared with the S&P/ASX 200 Accumulation Index (benchmark), which returned 5.43%.

Performance

	Quarter (%)	1 year (%)	3 years (%) p.a.	5 years (%) p.a.	Inception (%)
Greencape Wholesale High Conviction Fund	**10.90**	**-**	**-**	**-**	**43.46**
Growth return	0.73	-	-	-	29.34
Distribution return	10.17	-	-	-	14.12
S&P/ASX 200 Accumulation Index	5.43	-	-	-	28.53
Active return (net)	**5.47**	**-**	**-**	**-**	**14.93**

Returns are calculated after fees have been deducted, assuming reinvestment of distributions. No allowance is made for tax. Past performance is not a reliable indicator of future performance.

Investment objective

The Fund aims to deliver growth over the long term through a highly concentrated portfolio of Australian shares, and provide returns above the benchmark, the S&P/ASX 200 Accumulation Index, over rolling three-year periods.

Investment manager

Greencape Capital Pty Ltd

Investment strategy

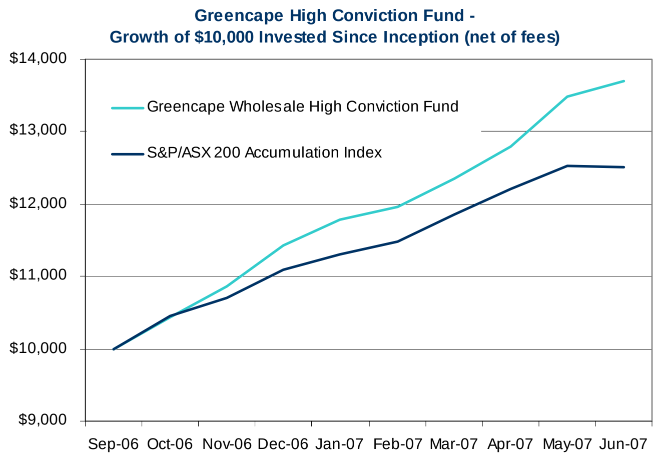
Greencape is an active, bottom-up stock picker. Whilst not targeting a specific investment style and investing in stocks displaying 'value' and 'growth' characteristics, Greencape's focus is on a company's qualitative attributes, which will generally lead to 'growth' oriented portfolios. This is an outcome of Greencape's bottom up process. As such, Greencape's investment style may be classified as 'growth at a reasonable price' (GARP).

Distribution frequency

Quarterly

Suggested minimum investment timeframe

At least five years



Asset allocation

	Current (%)	Range (%)
Securities	96	85 - 100
Cash	4	0 -15

Fund facts

	Greencape Wholesale High Conviction Fund
Inception date	11/09/2006
APIR code	HOW0035AU

Fees

	Greencape Wholesale High Conviction Fund
Entry fee	Nil
2005/06 MER	NA
Management fee	0.90%p.a.
Performance fee	15% of the Fund's after management fee return above the Fund's benchmark.
Buy/sell spread	+0.30%/-0.30%

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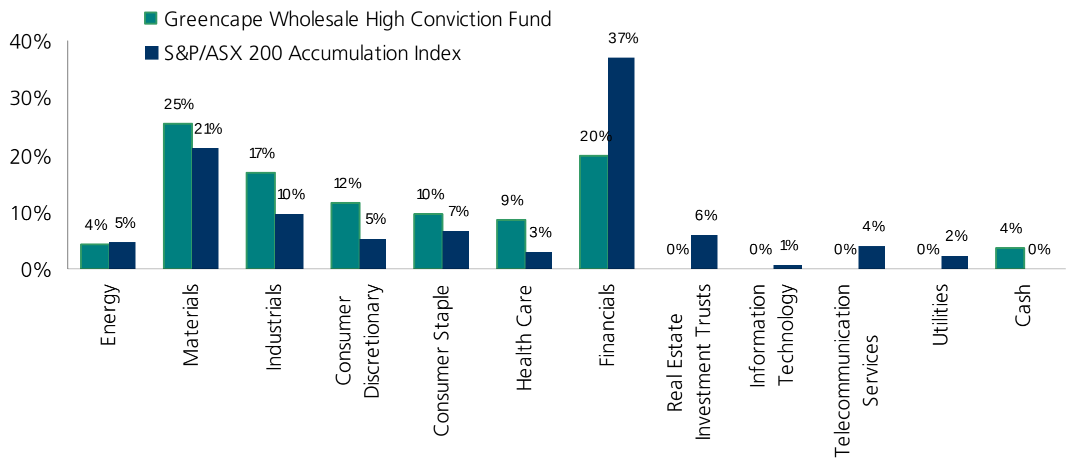
Sector exposures as at 31 May 2007



Market Review

The June 2007 quarter was the tenth positive returning quarter in a row for the Australian market. Over the last 4 years the S&P/ASX 200 Accumulation Index has increased by 137%. These attractive returns have largely been driven by material upgrades to company earnings which have accounted for around 110% of the 137% return. Its worth noting however that over the last 12 months the market returned around 30% whilst company earnings were upgraded by only 8%. Significantly, resource stock earnings upgrades account for all of the market's forecast earnings upgrades, so financial stocks, industrials and property stocks have all enjoyed share price rises without forecast earnings being revised upwards. This is suggesting the market is becoming less risk averse and more willing to assume positive earnings growth can be sustained into the future. This translates into higher price earnings ratios being priced into share prices, and importantly stocks now have significantly less margin for error. We expect the macro economic environment to remain supportive of company earnings growth, however, we also expect increasing numbers of companies will fail to deliver enough relative to "lofty" market expectations. As a result we expect the market will severely punish the share prices of these stocks as the negative double whammy of reduced earnings expectations and price earnings de-ratings are rapidly priced into stocks which disappoint. As the market observes the severity of the sell-offs given to stocks which disappoint, we expect the market's risk appetite will begin to wane.

***"If you think that education is expensive, try ignorance."* – Derek Bok former President Harvard University**

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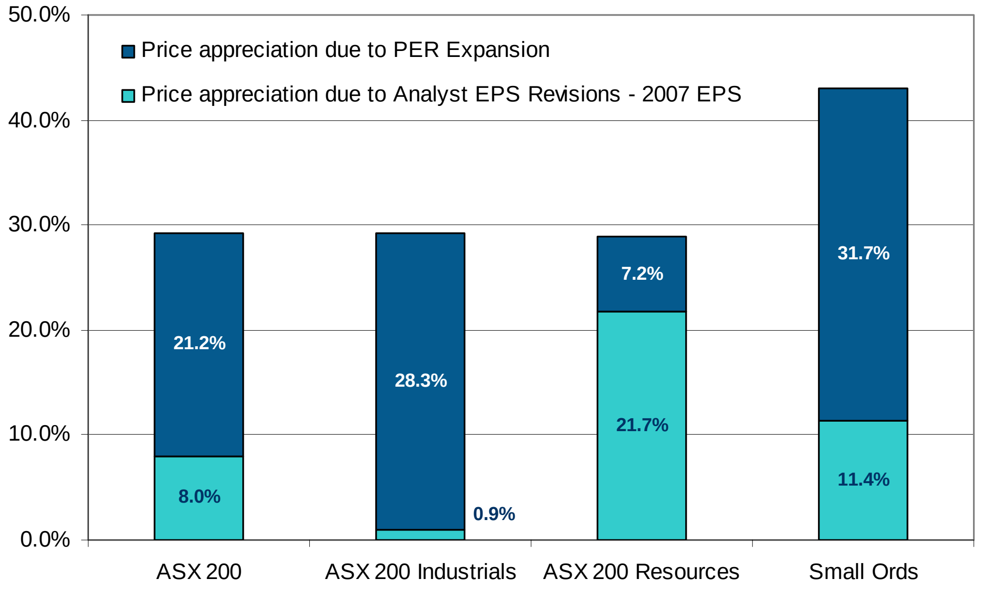
FUND MANAGER OF THE YEAR 2007
WINNER
Rising Star

12 Months Returns Earnings Growth vs. PE Expansion



Source: Goldman Sachs JB Were 2007

We have observed typical bull market behaviour of the financial services sector. As is typical in a bull market, numerous young "twenty-somethings" occupy the dealing and analytical desks of broking houses. The interesting thing about this cycle is that people in their twenties, generation Y, have never worked in a bear market and definitely never experienced a recession. When highly priced stocks disappoint market expectations and "negative double whammies" occur, we expect many in the market will be amazed at how cheap some stocks can become. We at Greencape are very conscious of this, and are very focused on assessing the likelihood of stocks not delivering on market expectations. At this point in the cycle independent verification of information sourced from companies is important, and indeed our research effort reflects this.

A key recurring theme, and indeed challenge, highlighted by company management is growing (if not retaining) effective employees. During the quarter we met with various large employers and focused on understanding how they met this increasing challenge. What was highlighted was the speed at which accelerating staff turnover and resultant lower productivity can act to hurt a company's profitability. We expect a number of negative earnings surprises to be announced in the coming reporting season will be caused primarily by staff shortages, higher than expected staff costs and project execution delays. When there are challenges, opportunities are created. We have observed that low staff turn over, staff morale and staff effectiveness can be an effective differentiator for a

***"The trouble with the world is that the stupid are always cocksure and the intelligent are always filled with doubt." –* Bertrand Russell, British philosopher, mathematician**

company, and a source of competitive advantage. We have also observed that staff effectiveness is not a function of pay packet. Indeed in all our meetings with employers, a company's culture, transparency and accountability and the ability of people managers to inspire staff was considered far more important. This in itself has created valuable service sectors for companies which can facilitate and provide services to employers and their employees which assist in staff retention and recruitment. We have identified some listed stocks which are well placed to benefit from this theme.

During the quarter Greencape's research effort involved meetings with US, UK, Swiss and Norwegian based companies. We also met with management teams from companies which operate extensively in Brazil, Africa, China, South East Asia and India. An important observation from these meetings is the growing relevance of standards and quality control. With much relocation of manufacturing to East Asia, Eastern Europe and in some cases South America and Africa, delivery of reliable and trusted product is becoming an important differentiator for competing companies. Furthermore, servicing and facilitating quality controls is an enormous market opportunity in itself. Greencape has identified listed stocks which are likely to benefit from these rapidly growing demands.

The June quarter witnessed the end of the El Nino derived drought in South Eastern Australia. Drought-depressed earnings often hides underlying business improvements, and Greencape believes this is the case for a number of listed agri-stocks. Furthermore, soft commodity prices have been strong as grain derived ethanol production increases, and protein demand from emerging market populations accelerates. These trends, combined with a shrinking area for farmable land due to expanding urbanisation, have resulted in a heightened demand for yield optimisation, thus the value proposition of certain farm inputs has increased significantly. Greencape's portfolios have been positioned to benefit from this, and indeed did benefit from strong share price performances during the quarter from a number of agri-stocks.

Industry consolidation remains a significant observable trend. This has been driven in part by private equity firms (with access to cheap debt) providing catalysts for merger and acquisition activity. During the quarter we have observed significant consolidation in the domestic steel sector and health diagnostic sector. Greencape's investment process formally assesses a company management team's ability to execute and add value for its shareholders. Such assessment is a critical input when identifying undervalued stocks which are participating in industry consolidation. Changes to industry structure creates threats and sometimes significant opportunities.

Fund outlook

We consider the ingredients remain for the market to deliver positive returns, however at lower growth rates than the last ten quarters. With the market constantly questioning if potential threats such as recent increased long bond yields or weak US housing or a collapse in the US mortgage junk bond market may spread to the wider economy and general market sentiment, we do not consider the market to have an excessive level of complacency. We do expect corporate profit growth rates to plateau if not decelerate. This is expected to result in the market differentiating further between stocks which have positive short term outlooks, and those which can sustain growth for a longer duration. Greencape believes its bottom up, targeted research approach is well placed to continue to identify undervalued stocks.

Matthew Ryland
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July 2007