

Emerging Resources Company Share Fund Investment Manager's Annual Letter 2007

Dear Unitholders,

The Emerging Resources Company Share Fund had been operating for 14 months by the end of June 2007, delivering a 59.2% investment return since inception and a 64.1% return since the beginning of 2006/07.

The Fund was among the best performing managed investments available in the Australian market during 2006/07. Its investment returns ranked among the top 15 of the more than 10,000 funds tracked by research house Morningstar. The Fund was among the top three of more than 600 Australian growth funds.

Finding Organic Growth

Through most of the year, easing commodity price momentum had detracted from the share price performance of those resource companies depending most on higher commodity prices to raise earnings. However, continuing growth in raw material demand maintained the flow of opportunities for emerging producers to build value through new developments and expansions of existing operations.

The Manager's investment process is designed to identify the resource companies most likely to build value through the exploitation of organic growth opportunities. In doing that, the Fund seeks to avoid investments in companies primarily interested in exploration. Similarly, it seeks to exclude those companies from its portfolio whose stock market fortunes are driven primarily by fluctuations in commodity prices or speculation about their likely direction.

The investment success of the Fund is based on four important attributes:

- Fund managers and investment committee advisers with an appropriate blend of skills, including backgrounds in the resources sector, institutional funds management and investment strategy.
- A clear focus on how value is most likely to be created, namely, exploiting organic growth opportunities.
- Valuing stocks on a consistent basis using methodologies that measure absolute value.
- Managing portfolio risk by ensuring exposure to a broad spread of commodities.

This investment process has helped to deliver superior investment returns without incurring any significant increase in the volatility which would have been associated with a fund made up of resource sector leaders.

Sources of Investment Returns

All the companies in which the Fund invested during the year have been building value through new projects or significant expansions of existing operations.

Forty six percent of the increased value of the Fund came from the nonferrous metals stocks within the portfolio. Key stocks within this segment which contributed to performance were Terramin Australia, Copperco and Mirabela Nickel.

Terramin received the go ahead for its Angus zinc mine in South Australia in March 2007. However, its longer term value is likely to be heavily influenced by successful development of its Tala Hamza zinc-lead project in Algeria, potentially one of the world's most significant sources of new zinc supplies.

The primary development asset of Mirabela nickel is a world class nickel mine in Brazil. The feasibility study for the Santa Rita mine was completed early in July 2007 and the company expects to have mining underway by June 2009.

The activities of Copperco are currently on a smaller scale but located in areas of known copper mineralisation in Queensland. Along with other companies in the portfolio, Copperco is a beneficiary of the continuing global growth in demand for metal raw materials. With that comes a need to find and develop an ever growing number of new mines.

Oil and gas stocks in the portfolio contributed 38% of its investment performance. Sunshine Gas and AED Oil are the two stocks which were primarily responsible for this performance. Both benefited from buoyant energy prices. More importantly, however, they met project development milestones which added to their intrinsic value and led to greater investor support.

The Fund was caught up in some of the merger activity in the sector. Four stocks which it has held - Climax Mining, Hardman Resources, Aztec Resources and Bolnisi Gold - have been subject to takeover bids.

Investment opportunities in the gold sector have been disappointing. Movements in gold prices have lagged the sharp rises in a wide range of other raw material prices. There has also been strong competition for technically qualified people and mining equipment from other parts of the resource market which has reduced the priority accorded to gold mining in Australia.

The Fund will continue to hold gold investments as part of its risk management strategies. However, the gold stocks held in the portfolio during the year generally detracted from the Fund's overall investment performance.

Expanding Interest in Fund

The Fund has been placed on the lists of approved investments for a growing number of advisory groups and is also being supported by an expanding number of independent financial advisers.

Associated with the rollout to advisers and to facilitate its use, the Fund has been included on several investment platforms including BT Wrap, the Austchoice Master Trust, Oasis, Symetry, MLC MasterKey Custom and e-trade. Western Pacific clients also have access through Asgard.

E.I.M. Capital Managers Limited
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