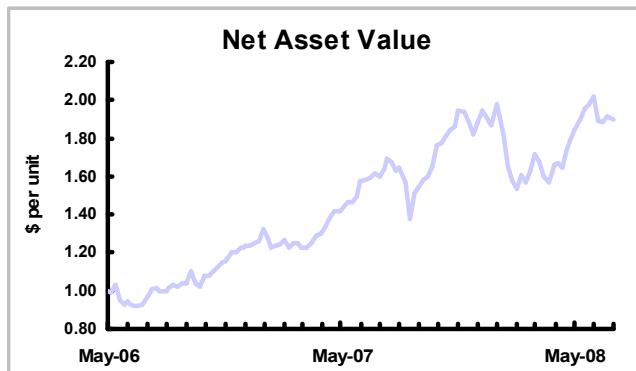


Emerging Resources Company Share Fund
Investment Manager's Annual Letter 2008

Dear Unitholders,

The Emerging Resources Company Share Fund delivered a 19.04% investment return for the year ended June 2008 and an annualized return of 34.32% since its inception at the end of April 2006.



All the companies in which the Fund invests are developing new projects or undertaking substantial expansions of existing operations rather than depending on higher commodity prices or exploration success to drive their stock market fortunes.

A good example of the type of company the Fund seeks to target is Mirabela Nickel, an ASX listed,

Perth-based company developing a nickel mine in Brazil.

Australians are at the forefront of the mining professions globally, enabling the Fund to invest in a wide range of international properties via the ASX. About one-third of the Fund's portfolio is made up of companies whose primary development assets are outside Australia.

Once operating, Mirabela's Santa Rita mine, costing US\$320 million and scheduled to commence production in mid 2009, will have a life currently estimated at 20 years with operating costs expected to be less than half the current nickel price.

Market Conditions

Evidence mounted throughout 2007/08 that global economic conditions were deteriorating. Although resources companies were insulated to some degree from the slowing global economy due to their exposure to the faster growing Chinese and Indian economies, their share prices were also affected by falling equity values around the world.

In an Australian market context, the S&P/ASX 300 resources index peaked initially in October 2007 some 22% higher than at the beginning of the year, subsequently fell by 27% but then rose 51% to set a new high point in May 2008. For the year as a whole, the index gained 25%.

Daily traded metal prices followed a similarly volatile path. One indicator, the metal price index prepared by the International Monetary Fund, had reached a peak in May 2007 before falling 21% and recovering to finish the year 6% lower than its value at the start of the year. Iron ore and coal prices fared significantly better. The latest round of annual price negotiations resulted in gains of 66% and 160%, respectively, for these commodities. Meanwhile, oil prices have reached record high levels as have gold and silver prices.

Investment Contributions

Of the five commodity segments into which the Fund is divided, returns were highest in the steelmaking and coal group (+134%), followed by oil and gas (+27.4%) and nonferrous metals (+11.9%). Industrial minerals (-50.9%) and gold (-8.9%) returns were negative.

The four companies which made the greatest positive contributions to investment performance were United Minerals Corporation, Felix Resources, Sunshine Gas and Macarthur Coal.

Both Felix Resources and Macarthur Coal benefited from improving coal market conditions as well as from their expanding coal production profiles. Share prices were also affected by speculation that Australian coal producers would become takeover targets for larger offshore companies seeking to expand their resource bases and acquire assets closer to key Asian markets.

Toward the end of June, prices contained significant takeover premiums and, with some chance that takeovers would not eventuate, the balance of risks had shifted. After reassessing the potential upside and risks of lower prices, the manager sold a significant part of the Fund's holdings in Macarthur Coal and Felix Resources.

The United Minerals Corporation share price appreciated by 300% after the first shares were acquired by the Fund in September 2007. The WA based iron ore mine developer has been progressively confirming the quality of a Pilbara resource position not far from where BHP Billiton and Rio Tinto also operate. Against the background of the strong share price performance and despite the potential for further price gains, the manager also sold a sizable part of the Fund's stake in United Minerals Corporation when its holding went beyond the portfolio weighting set by the risk management guidelines within which the Fund operates.

Sunshine Gas has a strong development program based around the coal seam gas potential of Queensland. The 99% share price appreciation through the year was given impetus by the company's success in meeting its development milestones. Late in the year, it also benefited from the bid by UK-based BG Group for Origin Energy, a bid which forced a revaluation of all the coal seam gas assets in the region.

Two stocks - Perilya and Matilda Minerals - made significant negative contributions to Fund performance. The Perilya share price fell by 83% during the year. Weaker zinc prices and the company's failure to complete a long anticipated merger with fellow Broken Hill zinc miner Consolidated Broken Hill were the main influences. The Fund had retained its investment in Perilya based on reassurances from the company that the merger would be completed. In deciding to abort the merger, the company was left with none of the potential synergies from combining the two businesses, a relatively high cost production base and a very limited range of strategic options precipitating a decision by the manager in late June to sell the Fund's holding.

The 59% fall in the share price of mineral sands mine developer Matilda Minerals reflected a general move away from smaller stocks by investors especially after the steep market sell-off in mid January. Matilda Minerals was one of the two smallest stocks in the portfolio. Matilda also suffered because of storm damage to its Northern Territory loading facilities. The damage has yet to be repaired and has delayed shipments since shortly after production commenced in early 2008.

Purchases and Sales

During the year, the Fund held 24 different stocks. In addition to selling Perilya, it sold Aquarius Platinum, Intrepid Mines and AED Oil. The Aquarius holding was sold after the company's share price reached the manager's targeted level. AED Oil was sold profitably after evidence that the company would not be able to meet its previously anticipated production targets. Intrepid Mines was sold following a reappraisal of its ability to fund its primary development assets at a reasonable cost.

In their places, the Fund established holdings in United Minerals Corporation, Canadian zinc mine developer Overland Resources, Bass Strait oilfield developer 3D Oil and west African iron ore mine developer Sundance Resources.

The Fund also acquired a small holding in Condor Nickel in June as a result of an *in specie* entitlement arising from its holding of Carrick Gold shares. The shareholding is not material and the manager intends to sell the shares as market conditions permit.

The coincidental decisions to sell Perilya and reduce the Fund's exposure to several stocks at the end of June resulted in an abnormally large cash holding at the end of the year. The manager intends to deploy the available funds in the new financial year by buying one new stock which will account for approximately 5% of the value of the portfolio and by investing the balance of the available funds progressively in the remaining stocks currently held in the portfolio.

Distribution

There were no distributions for 2007/08 as the Fund's expenses exceeded the net value of asset realizations during the year.

Market Development

The Fund size grew from \$6.5 million at June 2007 to \$36.4 million at June 2008 as a broadening range of advisors began bringing the Fund to the attention of their clients as a way of gaining investment exposure to the resources industry. The increased number of investment platforms through which the Fund could be accessed also helped.

Outlook

Investors are currently facing some of the most difficult equity market conditions in several decades. Lower interest rates and signs of earnings improvement - the usual catalysts for a share market turnaround - seem many months away. However, the underpinnings for the resources market remain intact having changed little as a result of the weaker macroeconomic conditions in the developed economies.

A pipeline of new mines delivering growing quantities of raw materials will be essential if living standards for a growing Asian population are to improve and if the ongoing requirements in the developed economies are to be met. Notwithstanding short term fluctuations in macroeconomic conditions, this raw material need is likely to remain for the foreseeable future offering opportunities for a growing number of mid sized resources companies developing new projects. These are the Fund's primary investment targets.