

23rd September, 2008

High Growth Shares Trust - ASIC ban on short selling

Summary of ASIC's announcement

Over the weekend ASIC announced a ban on short selling. Short selling is an investment technique where a share is sold with the expectation that it can be bought back at a lower price in the future, resulting in a profit. The measures announced by ASIC include:

- Banning naked short selling;
- Placing a ban on covered short selling;
 - The ban on covered short-selling for non-financial stocks will be re-assessed in 30 days;
 - The ban on covered short-selling for financial stocks will be re-assessed at a later date in line with other international financial regulators;
- The ban does not apply to existing short positions held on Friday 19th September, 2008.

These measures came into effect from the opening of the market on Monday 22nd September.

Covered short selling involves borrowing a security and then selling it with the expectation that it can be bought back at a lower price. Conversely, naked short selling involves selling a security with the expectation that it can be bought back at a lower price without borrowing the security first. The High Growth Shares Trust does not engage in naked short selling.

While these measures have been put in place in response to recent global market conditions, ASIC has emphasised that it sees a legitimate place for short selling in markets.

Implications for the High Growth Shares Trust

From Monday 22nd September, the fund will not be permitted to establish any new covered short positions until advised by ASIC. Existing short positions can be retained, or bought back at an appropriate time by the Portfolio Manager.

How does the ban affect the High Growth Shares Trust?

It is important to keep in mind that the High Growth Shares Trust is predominantly a long fund which purchases shares in the expectation that their prices will rise, which can also employ some shorting. We are confident that we can continue to add to returns on the long side, notwithstanding the temporary suspension of short selling.

Current portfolio positioning

The level of shorting within the fund has decreased over recent months based on stock fundamentals and the increasing difficulty in finding good shorting opportunities in a declining market. As at Friday 19th September, the fund's short positions represented only 8% of the value of the fund, with no individual existing short position representing more than 1%. We are very comfortable with our existing short positions and believe they will add value to the fund.

With regard to other holdings within the fund, we have been actively taking larger positions in large, liquid well diversified companies with strong balance sheets. We remain confident that our portfolio of long positions is resilient and appropriately positioned.

Summary

We do not see the actions taken by ASIC as having a large detrimental effect on the fund's medium or longer term performance as we rarely short stocks on a very short term trading view. As noted the level of shorting within the fund has reduced recently in line with available opportunities, and we expect our remaining short positions to add value to the fund.

The High Growth Shares Trust has achieved very strong returns over a long timeframe by focussing on fundamental analysis. We will continue to seek to add value using the investment techniques at our disposal.

The above information is of a general nature and has been prepared without taking account of your individual investment objectives, financial situation or particular investment needs. It is not intended as financial advice to retail clients. Before making an investment decision, you should consider the appropriateness of the information, having regard to your objectives, financial situation and needs. We recommend you consult with your financial adviser, who can help you determine how best to achieve your financial goals.

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