



# ORB quarterly review

June 2005 | Issue No 7

## ORB Technology Limited

### Performance



The Net Asset Value (NAV) per share rose from \$0.969 to \$0.992 over the quarter to June 2005, an increase of 2.4%. This was achieved with the assistance of a rise in the NASDAQ Composite (in Australian dollar terms) and a fall in Australian long-term interest rates, both contributed to the NAV over the quarter. The NASDAQ Composite (in Australian dollar terms) has lost 1.7% p.a. from its level when the fund was launched in October 2003 to June 2005, compared with a rise of 2.6% p.a. by the Fund. The Investment Manager, TechInvest, has thus been successful in protecting the value of the Fund, through a difficult investment environment and is looking to grow the Fund over the balance of its life.

The guarantee for investors on maturity on 26 September 2011 is presently \$1.00; this guaranteed amount may rise in the future, but will not fall. The final future value of the Fund will be the total of the guaranteed amount of at least \$1.00, and the Margin Account at maturity, which is presently valued at \$0.305 per share. The value of the Margin Account will vary over time depending on investment performance and expenses.

### TechInvest Outlook

The Investment Manager continues to believe that the knowledge industries of health care, information technology and telecommunications provide an outstanding source of investment

opportunity over the life of Orb Technology. There has been a noticeable improvement in the outlook for the sector as markets, having adjusted to the current lower earnings environment, are rewarding companies that show the prospect of improvement from this lower base.

The Investment Manager is holding a diversified portfolio of target companies that they expect to outperform market expectations and relying on a smaller diversified portfolio of short sales to protect the NAV from possible adverse market movements, as well as to seek additional returns from companies that the manager believes have poor prospects compared with market expectations. The Investment Manager is watchful for opportunities to adopt a higher exposure to sharemarket reflecting the improved outlook.

### NAV history

Date	NAV/Share (A\$)
30 June 2005	0.992
31 March 2005	0.969
31 December 2004	0.967
30 September 2004	0.953
30 June 2004	1.002
31 March 2004	0.969
31 December 2003	0.925
15 October 2003	0.950

The key factors impacting the NAV of Orb Technology during the quarter are summarised in the following table:

	Movement	Impact in Quarter on NAV
Sharemarket	↑	+
Australian dollar/ US dollar	↓	+
Active management of shares & currency	N/A	—
Long Term Interest Rates	↓	+

The Share price of Orb Technology Limited is published at the end of every month on our website, [www.cgil.com.au](http://www.cgil.com.au).

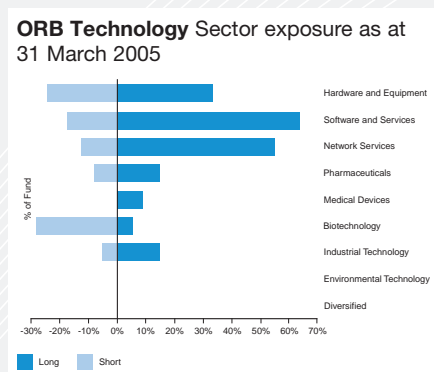
### Equity investment

The Investment Manager of Orb Technology, TechInvest, commenced the investment strategy in sharemarkets on 20 October 2003. Since that time the technology-oriented NASDAQ Composite (in Australian dollar terms) has fallen 1.7% p.a. and the portfolio has been set to minimise market exposure with investments partially offset by a diversified portfolio of short sales. Share exposure for the fund has been selected from the following sectors: Biotechnology, Environmental Technology, Industrial Technology, Medical Devices, Network Services, Pharmaceuticals, Software & Services and Hardware & Equipment. As at 30 June 2005, the portfolio was tilted towards Software & Services and Network Services, with lower weightings in Industrial Technology, Medical Devices, Pharmaceuticals and Hardware & Equipment. Short positions were used to reduce exposure in most industry groups and in the case of Biotechnology a net short position was held (see table below). The maximum equity portfolio



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available to the Investment Manager has been in the range of 73.6% to 81.4% of NAV during the quarter. During the quarter, the weights to Software & Services and Network Services were increased at the expense of Biotechnology, Pharmaceuticals, Network Services, Hardware & Equipment, Medical Devices and Industrial Technology. Market risk was managed by including a number of offsetting short equity positions, while retaining a net long exposure.



## Currency management

The Australian dollar fell by 1.5% over the June Quarter. This currency movement contributed to the increase in value of offshore investments. There was no currency hedge in place during the quarter. The balance of Orb Technology is held in an Australian dollar denominated Fixed Deposit Account. As a result, Orb Technology is exposed to movements in the US dollar to the extent of the size of the US dollar Margin Account, which at 30 June 2005 was 30.2% of Orb Technology.

## Fixed deposit investment

Long-term interest rates fell over the June quarter to end the quarter lower than at 31 March 2005, increasing the present value of the Fixed Deposit Account. While changes in market interest rates will impact the current value of the deposit both positively and negatively over the eight-year life of Orb Technology, the Fixed Deposit Account will accrue to a future value that supports the guarantee and rising guarantee. An interest rate swap introduced in February 2005 was closed during this quarter, having provided some protection to the fund from an earlier rise in interest rates.

## Interview with Investment Manager

Capital Guaranteed Investments Limited's Raef Newitt spoke with TechInvest CEO Rick Steele about the investment management role performed by TechInvest and asked him a number of questions about how they go about the task of managing the Orb Technology share portfolio.

**Raef: A number of people have asked me about how companies are selected for inclusion in the Orb Technology portfolio. Can you tell more about how this is done?**

Rick: The Orb Technology share portfolio is comprised of investments in approximately forty companies that are offset to some degree by forty companies sold short. Focusing on this tight list of holdings helps ensure that the full impact of our research is reflected in investment performance i.e. that the decision to include or exclude a security will be meaningful. Including a portfolio of short sales has the dual benefit of enhancing our stock selection capability as well as reducing the Fund's exposure to the overall movements in sharemarkets.

**Raef: Tell me more about short selling. How does that work exactly?**

Rick: As a sharemarket investor we develop views on a range of industries and companies. In many cases our assessment is that the financial market expectation of the likely success of a company is not supported. In those cases we seek to sell the securities of the company in the expectation of buying them back later when the share price has declined.

**Raef: There must be so many companies to choose from. How do you know where to focus your attention?**

Rick: We select candidate securities for possible inclusion in the portfolio as an investment or short sale based on initial filtering as well as their under or overvaluation indicated by the comparison of fair price, buy price and sell price developed in the research stage of the investment process. We draw on the well of knowledge that we have accumulated in these industries that we maintain by attending industry trade shows and conferences and ongoing research.

**Raef: How do you know what industries or companies are likely to be successful and won't these views be already reflected in the market price?**

Rick: That's the funny thing Raef. Share prices exhibit far more volatility than the underlying earnings of companies. This suggests that investors are not certain about what value to attach to the earnings stream of a company. Our process stresses "doing the numbers". We develop a value for companies based on our forecasts of their key financials, such as sales and profit margins, and the risk we attach to them. We work hard to better understand the prospects of industries and companies and attach the right risk weight to those prospects in coming to our view. We've found that doing the numbers in this way and determining our value of a firm that we can directly compare with the value implied by sharemarkets gives us a reference point from which we can then select the best investments and the best short sales for the fund.

**Raef: How do you manage the risks that must be part and parcel of managing a specialist technology fund like Orb Technology?**

Rick: Risk management is an important and integrated element of TechInvest's investment and portfolio construction processes. We address risk in the investment process itself on a company-by-company basis by applying higher discount rates to the future cash flows of companies judged to be of higher risk and lower discount rates for companies judged to be of lower risk. What this means is that higher risk companies - those that have a wider range of possible outcomes - need to meet a more stringent return hurdle than so-called safer companies. While we're always searching for high return opportunities, we need to formally take into account the risk taken in seeking these returns.

We seek to manage risk in two other ways. Firstly and most importantly we seek to diversify the holdings in the fund. This is an important risk management measure; the fund is then not unduly exposed to any one particular investment idea. When we build the portfolio we have an eye to diversifying across a wide range of knowledge industries, economic activity in various geographic markets, companies at

various stages of development and companies with different levels of market capitalisation. We also take care not to invest or short sell more than 10% of the issued capital of any one company.

**Raef: You say a maximum holding size is 10%. What is a typical holding size?**

Rick: Security weightings typically range from 1% - 5% of the equity portfolio, depending on the risk weight attached. Index weights to particular companies are not taken into account in the portfolio construction process, each investment is selected and holds its place in the portfolio based on merit, not based on their market capitalisation.

**Raef: What about formal risk controls?**

Rick: Well, the second thing that we have is a formal risk monitoring process. We have analysts devoted to the ongoing identification and monitoring of risk as well as the development, implementation and management of risk management tools. Right now we monitor portfolio risk daily and on a weekly basis prepare a formal risk report indicating possible rebalancing activity applying to stocks that have moved up or down 10% or more on any one day in the week, stocks that have moved up or down 15% or more on a cumulative basis over the week or stocks that have drifted more than 20% from their original target allocation. We also formally review the portfolio leverage and currency exposure on a weekly basis.

ORB INTERNATIONAL  
ENHANCED INCOME  
(YIELDS) and (YIELDS2)

The Income Plus  
Strategy AUD  
Performance



The Income Plus Strategy is based on Citigroup's proprietary trading model that seeks to offer a high level of income and potential for capital appreciation through exposure to global equity markets. Each year, the Strategy selects a portfolio of 30 high yielding stocks from the Dow Jones Global Titans 50 SM (DJGT) Index. Further yield enhancement is achieved by writing quarterly covered call options on each of the stocks within

the Strategy. The call option overwriting is intended to help the Strategy outperform a direct investment in the underlying portfolio of stocks in all but strong bull market scenarios.

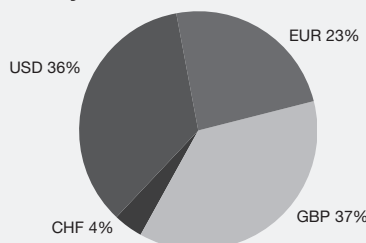
Both the YIELDS and YIELDS2 Investments have exposure to the Income Plus Trading Strategy whilst at the same time guaranteeing the capital value of \$10 if held to their respective maturities.

For the quarter ending 31 May 2005, the Strategy Price Return in Australian Dollars was -0.20%. This compares with +2.12% for the AUD Price return of the Dow Jones Global Titans Index. During April the Income Plus Trading Strategy (IPTS) distributed income of 2.14%.

The Financial Sector (36% of assets invested) negatively impacted performance over the quarter. The Healthcare sector (16% of assets invested) and Energy sector (17% of assets invested) positively affected performance.

The Australian Dollar weakened over the period. Against the USD it was 0.14% lower over the quarter, 0.1% lower against EUR and 0.21% lower against GBP.

Currency Distribution<sup>3</sup>



Top Ten Holdings<sup>(4)</sup>

Company	Sector	Currency	Country
Altria Group Inc.	Consumer Noncyclical	USD	US
Barclays	Financial	GBP	UK
DaimlerChrysler AG	Consumer Cyclical	EUR	Germany
ENI SpA	Energy	EUR	Italy
GlaxoSmithKline	Healthcare	GBP	UK
HBOS	Financial	GBP	UK
HSBC Holdings Plc	Financial	GBP	UK
ING Groep NV	Financial	EUR	NL
JP Morgan	Financial	USD	US
SBC Communications Inc.	Telecommunications	USD	US

YIELDS

As at 31 May 2005, the value of YIELDS as traded on the Australian Stock Exchange was down 3.0% for the quarter. The Fair Market Value was down 0.2%. This is

largely attributable to the weakening portfolio value in AUD over the quarter. (refer to the factors below). The allocation to the IPTS fell over the quarter from 82% at the beginning of the quarter to 58% on 18 April 2005. The Gap Measure stood at 20% as at 31 May 2005.

A distribution of 15.69 cents per YIELDS occurred over the quarter. This payment saw YIELDS trade on an ex-distribution basis on 13 April 2005 and a distribution was paid to holders on 16 May 2005.

Factors impacting the performance of YIELDS:

**Appreciation of the AUD v USD since commencement.** This has impacted both the value of the dynamic portfolio and the recent distribution. The AUD/USD rate has risen sharply from 0.7025 cents on 30 July 2004 (Issue date) to 0.7558 cents as at 31 May 2005. Over the quarter however the AUD/USD has depreciated from 0.7919 to 0.7558.

**Allocation to the Income Plus Trading Strategy.** YIELDS has a current allocation of 58% to the IPTS. A de-leverage event occurred on 18 April 2005.

**Historically Low Option Volatilities.** With global option volatilities currently at low levels, the ability for the IPTS to generate 12% has been adversely impacted.

YIELDS2

YIELDS2 was issued on 6 December 2004 and also invests in the IPTS.

During the 3 months ending 31 May 2005, the value of YIELDS2 as traded on the Australian Stock Exchange was down 1.7%. The Fair Market Value was down 0.85%. The allocation to the IPTS remained unchanged since the issue date at 100% and the Gap Measure stood at 17% as at 31 May 2005.

A distribution of 20.21 cents per YIELDS2 occurred over the quarter. This payment saw YIELDS trade on an ex-distribution basis on 13 April 2005 and a distribution was paid to holders on 16 May 2005.

## Factors impacting the performance of YIELDS2:

**Historically Low Option Volatilities.** With global option volatilities currently at low levels, the ability for the IPTS to generate 12% has been impacted.

**Depreciation of the AUD v USD since commencement and over the quarter.** This has impacted both the value of the

dynamic portfolio and the recent distribution. The AUD/USD rate has fallen from 0.7729 cents on 6 December 2004 (Issue date) to 0.7558 cents as at 31 May 2005. Over the quarter the AUD/USD rate has also depreciated from 0.7919 to 0.7558.

**Allocation to the Income Plus Trading Strategy.** YIELDS2 has a current allocation of 100% to the IPTS.

(1) Return figures are calculated as a % change over the period, include income distributed by the Strategy and assume no reinvestment over life. (N.B. The % coupon paid on the Note is not the same as the % income distributed by the Strategy as the coupon is among other things a function of the allocation to the Strategy). Yield is based on value of Strategy as of beginning of period. (2) Percentage change of each currency holdings within Strategy versus AUD over the past month, using currency weightings as of end of month. (3) Breakdown as of beginning of month using live weights and prevailing exchange rates and showing the exposure of the Strategy holding to the currencies listed. (4) Top ten holdings shown alphabetically as of last rebalancing (5) Price performance showing sector returns as measured in the stocks' respective local currencies over the past month, using live weights as of beginning of month. (6) Breakdown as of beginning of month using live weights reflecting the relative value of each stock/sector as of that time in percentage of the value of the total Strategy holding.

(i) Bid Price is the ASX market bid price of YIELDS (ASX code: YLDSO1) as at the respective month end. This price reflects the highest market bid in the security as at the close of trading. In the event of no higher bids this price may represent Citigroup's market bid price for YIELDS. On the Issue Date the initial value of YIELDS was AUD 9.64 per unit. (ii) Price return and total return since Issue Date are calculated as a % change in price versus the YIELDS Value at the beginning of the reference period net of any upfront fee and other ongoing fees. Total return figures include distribution paid and assume no reinvestment over life. (iii) YIELDS Distribution % is calculated as the total distribution declared per unit during the period as a % of the value of YIELDS at the beginning of the period. % figures are not annualised. (iv) This is the AUD amount collected to date per YIELDS unit for the next quarterly distribution. This amount is an estimate as of month end, based on available information at the time and assumes the current allocation remaining constant. It is for indication only and may be subject to change. (v) Strategy and BP monthly change are estimates and are calculated using beginning and end of month Citigroup bid prices and allocations to the Strategy. (vi) The Dynamic Portfolio Reference level is the indicative value of the Net Portfolio Unit NAV as at the respective month end and has been derived from proprietary models that take into consideration estimates about relevant present and future market conditions as well as the size and liquidity of the position and any related actual or potential hedging transactions. It is for indicative purposes only and subject to change. (vii) If the Gap measure rises above 25%, an "up-leverage" event will occur; a fall of the Gap measure below 15% would lead to a "de-leverage" event. MoM means month on month change. Figures are calculated using month end data. Charts are based on month end data.

Source: Bloomberg (DJGT Index and exchange rates) and Citigroup Global Markets Limited.



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## ORB summary as at 30 June 2005

### ORB Technology Limited

Net Asset Value	A\$0.99	Investment Manager	Guarantor
Capital Guarantee	A\$1.00		
Issue date	October 2003		
Maturity date	September 2011		

### ORB International Enhanced Income (YIELDS)

Closing price (ASX)	A\$8.74	Issuer	Guarantor
Capital Guarantee	A\$10.00		
Issue date	30 July 2004		
Maturity date	22 July 2010		

### ORB International Enhanced Income (YIELDS2)

Closing price (ASX)	A\$9.23	Issuer	Guarantor
Capital Guarantee	A\$10.00		
Issue date	6 December 2004		
Maturity date	6 December 2010		

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