

# Kinetic Wholesale Emerging Companies Fund

Fund report and commentary – 31 December 2009

Performance						
	Quarter (%)	1 year (%)	3 years (%) p.a.	5 years (%) p.a.	10 years (%) p.a.	Inception (%)
<b>Kinetic Wholesale Emerging Companies Fund</b>	<b>7.16</b>	<b>65.43</b>	-	-	-	<b>-6.21</b>
Growth return	7.16	60.25	-	-	-	-8.16
Distribution return	0.00	5.18	-	-	-	1.94
S&P/ASX Small Ordinaries Accumulation Index	4.88	57.43	-	-	-	-6.65

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 outperform its benchmark, the S&P/ASX Small Ordinaries Accumulation Index, over rolling five-year periods.

## Investment manager

Kinetic Investment Partners Limited

## Investment strategy

Kinetic believes that inefficiencies exist in the small company sector of the market, and these inefficiencies predominately occur at the stock level.

Kinetic uses cash flow analysis to identify companies that they believe have been undervalued / undiscovered by the market. By focusing on cash flow, Kinetic minimises their exposure to accounting manipulations and changes in accounting standards.

Kinetic does not target a specific investment style. Kinetic's investment approach seeks companies undervalued on a cash flow return on investment (CFROI) methodology.

## Distribution frequency

Quarterly

## Suggested minimum investment timeframe

At least five years

Asset allocation		
	Current (%)	Range (%)
Securities	96	90-100
Cash	4	0-10

Top five active positions as at 30 November 2009			
	Fund weight (%)	Index weight (%)	Active weight (%)
Healthscope	5.56	1.50	4.06
Campbell Brothers	2.61	0.00	2.61
Tassal Group	2.61	0.19	2.42
PIPE Networks	2.37	0.00	2.37
SAI Global	2.92	0.59	2.33

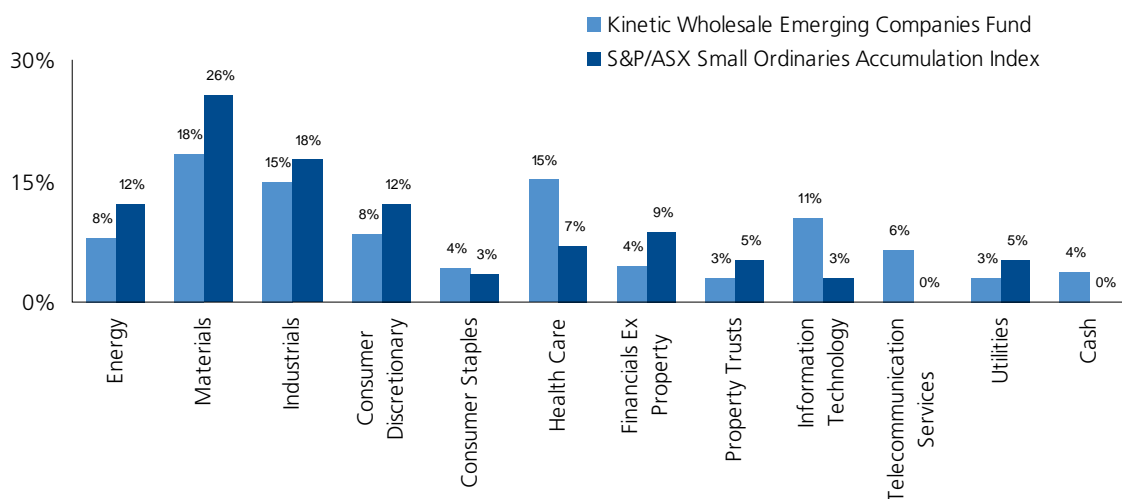
Fund facts	
	Kinetic Wholesale Emerging Companies Fund
Inception date	12/3/2007
Fund size (\$M)	29.57
APIR code	HOW0036AU

Fees	
	Kinetic Wholesale Emerging Companies Fund
Entry fee	Nil
2008/09 ICR	1.15%
Management fee	1.15% p.a.
Performance fee	20% of the Fund's gross return over and above the Index plus 1.15 % p.a.
Buy/sell spread	+0.40%/-0.40%

# Kinetic Wholesale Emerging Companies Fund

Fund report and commentary – 31 December 2009

## Sector exposures as at 30 November 2009



## Commentary

The market ended up 4.88% during the quarter (S&P/ASX Small Ordinaries Accumulation Index). 2009 was the strongest year in 16 years for the Small Ordinaries, returning 57.43%, compared to a fall of 54.24% in 2008. The Kinetic Smaller Companies Fund delivered a 8.00% active return over this period with cyclical and growth stocks contributing strongly to performance. During the quarter, small resources were up 10.40% as commodity prices rose and investors shifted from financials into the materials sector. The RBA raised interest rates by 25bps for three consecutive months as positive economic indicators continued to emerge for the Australian economy. Business and consumer confidence levels continued to rise and unemployment declined to 5.7% in November. Corporate activity was also on the rise with a number of initial public offerings (IPOs), capital raisings and merger and acquisition (M&A) transactions taking place.

The Fund strongly outperformed its benchmark during the quarter. Contributing to Fund returns were overweight positions in Thorn Group (up 41.26%), Nanosonic (up 35.20%), and Whitehaven Coal (up 41.20%). Detracting from returns were overweight positions in Nexbis (down 56.63%), and Nomad (down 38.14%) and an underweight position in Aquila Resources (up 71.40%).

Thorn Group rallied on the back of a strong earning result and outlook.

Nanosonic was up, with management anticipating a stronger than expected take up of their Trophon device and other potential product development.

Whitehaven rallied on the back of soaring coal prices.

Nexbis fell due to a suspended Malaysian immigration contract which had been a key component of their earning guidance.

Aquila Resources was up due to rising coal and iron ore prices.

Nomad fell off the back of an earnings downgrade in October. The downgrade was the result of cost overruns on a specific fixed price contract and a lag in general tendering activity. Subsequently, in January the company issued another downgrade amid further deterioration of a number of fixed price contracts and questionable supervision of projects. Kinetic have exited the position.

## Fund outlook

With the Small Ordinaries performing strongly in 2009 and having been broadly driven by macroeconomic themes and a greater sensitivity to an economic turnaround, performance in 2010 is more likely to be influenced by stock specific themes. Business and consumer confidence remains high and commodity price upgrades and Australia's proximity to developing countries in Asia should provide further support during the year. Earnings guidance has been driven by expectations of economic recovery but structural and sector themes should now have a greater influence on further revisions.

Any information contained in this publication is current as at 31/12/09 unless otherwise specified and is provided by Challenger Managed Investments Limited ABN 94 002 835 592 AFSL 234 668, the issuer of the Fund. It should be regarded as general information only rather than advice. It has been prepared without taking account of any person's objectives, financial situation or needs. Because of that, each person should, before acting on any such information, consider its appropriateness, having regard to their objectives, financial situation and needs. Each person should obtain a Product Disclosure Statement (PDS) relating to the product and consider that PDS before making any decision about the product. A copy of the PDS can be obtained from your financial planner, our Investor Services team on 13 35 66, or on our website: [www.challenger.com.au](http://www.challenger.com.au). If you acquire or hold one of our products, we will receive fees and other benefits, which are disclosed in the PDS for the product. We and our employees do not receive any specific remuneration for any advice provided to you. However, financial advisers (including any Challenger group companies) may receive fees or commissions if they provide advice to you or arrange for you to invest with us. Some or all of the Challenger group companies and their directors may benefit from fees, commissions and other benefits received by another group company.