

Kinetic Wholesale Emerging Companies Fund

Fund report and commentary – 30 June 2010

Performance						
	Quarter (%)	1 year (%)	3 years (%) p.a.	5 years (%) p.a.	10 years (%) p.a.	Inception (%)
Kinetic Wholesale Emerging Companies Fund	-10.76	17.39	-13.31	-	-	-8.29
Growth return	-12.22	15.46	-15.36	-	-	-10.36
Distribution return	1.46	1.92	2.05	-	-	2.07
S&P/ASX Small Ordinaries Accumulation Index	-11.59	11.18	-14.20	-	-	-9.57

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 31 May 2010			
	Fund weight (%)	Index weight (%)	Active weight (%)
Campbell Brothers	2.88	0.00	2.88
SAI Global	3.54	0.68	2.86
Pharmaxis	3.50	0.73	2.77
Mesoblast	2.49	0.00	2.49
Realestate.com.au	2.28	0.00	2.28

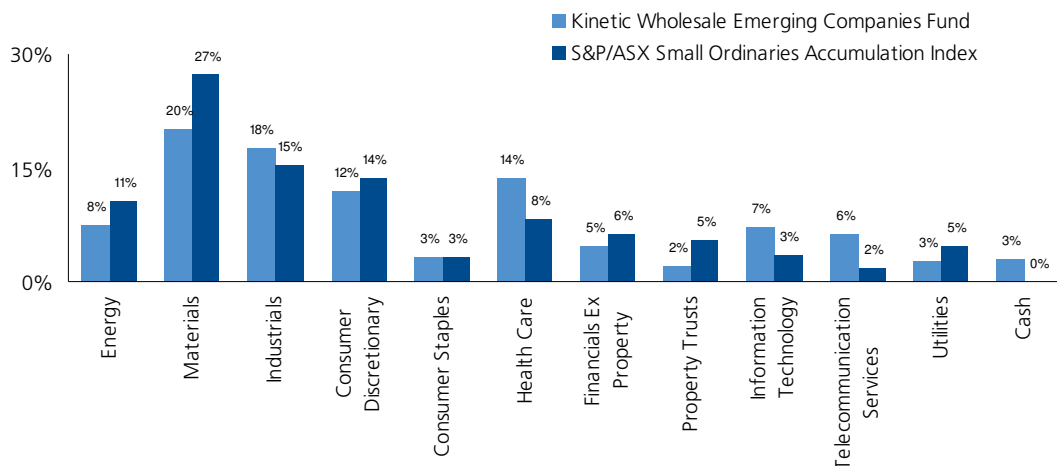
Fund facts	
Kinetic Wholesale Emerging Companies Fund	
Inception date	12/3/2007
Fund size (\$M)	26.34
APIR code	HOW0036AU

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%

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Sector exposures as at 31 May 2010



Commentary

The small cap market ended down 11.59% over the quarter (S&P/ASX Small Ordinaries Accumulation Index) underperforming the large cap market. Markets were driven by mainly macroeconomic news with sovereign debt concerns and fears of a slowdown in economic growth in China being the main points of contention. Locally, the introduction of the proposed Resources Super Profit Tax led to falls in the Australian share market as international investors displayed unease over Australia's political environment. Whilst consumer and business confidence weakened over the quarter, job growth continued to increase.

The Fund (down 10.76%) outperformed its benchmark during the quarter. Contributing to returns was an underweight position in Virgin Blue Holdings (down 58.16%) and overweight positions in Thorn Group (up 11.84%), and Campbell Brothers (up 3.89%). Detracting from returns were overweight positions in Bauxite Resources (down 81.25%), and Cooper Energy (down 33.33%), and an underweight position in Eldorado Gold Corp (up 60.07%).

Top contributors

- Kinetic has no holding in Virgin Blue which issued a significant profit downgrade during the quarter. This downgrade was mainly driven by a sharp fall in average fare levels.
- Thorn Group issued a strong full year profit result which surpassed previous profit guidance. Normalised net profit grew by 33% as the company's Radio Rentals business continues to grow its customer base.

- Campbell Brothers reported a solid full year profit result for the year ending March 2010, in line with previous guidance. Campbell also launched a takeover bid for Ammtec. Late in the quarter the company issued a first half profit forecast ahead of previous market expectations.

Bottom contributors

- Bauxite Resources received a notice from the Environmental Protection Agency advising that its proposed bauxite mine in Western Australia will require assessment via a Public Environmental Review. This is a major setback for the company. As a result Kinetic has significantly reduced its exposure to Bauxite Resources.
- Cooper's share price weakened on the back of a poor drilling result from its Fushia-1 oil prospect in Tunisia. Fallout from the potential imposition of the Resources Super Tax on its onshore oil and gas operations also weighed on the stock.
- Kinetic does not hold Eldorado Gold. The company rallied on the back of a strong gold price and rising production profile as new low cost mines are brought into production.

Fund outlook

Investors remain wary following increased concerns of a slowdown in the global recovery and a possible double dip recession. Whilst economic conditions remain fragile, negative viewpoints have largely been priced into stocks which provides upside if positive economic data emerges.

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