

# Kinetic Wholesale Emerging Companies Fund

Fund report and commentary – 31 March 2010

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>0.83</b>	<b>63.52</b>	<b>-6.30</b>	-	-	<b>-5.47</b>
Growth return	0.83	58.40	-8.12	-	-	-7.27
Distribution return	0.00	5.12	1.82	-	-	1.80
S&P/ASX Small Ordinaries Accumulation Index	-1.57	58.06	-7.48	-	-	-6.62

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 28 February 2010			
	Fund weight (%)	Index weight (%)	Active weight (%)
Campbell Brothers	2.73	0.00	2.73
Navitas	2.45	0.00	2.45
SAI Global	3.09	0.66	2.43
SMS Management	2.85	0.51	2.34
PIPE Networks	2.32	0.00	2.32

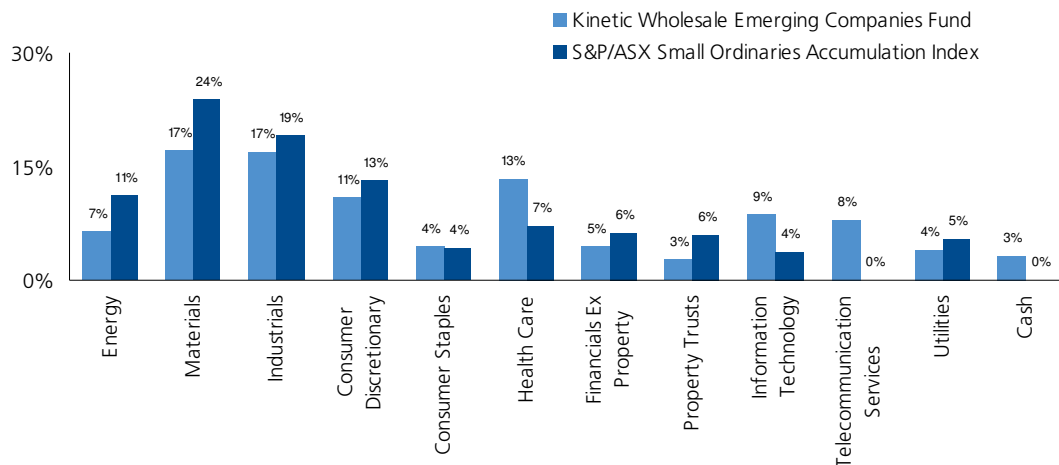
Fund facts	
	Kinetic Wholesale Emerging Companies Fund
Inception date	12/3/2007
Fund size (\$M)	30.3
APIR code	HOW0036AU

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 28 February 2010



## Commentary

The small cap market ended down 1.57% during the quarter (S&P/ASX Small Ordinaries Accumulation Index) underperforming the large cap market. Sovereign debt concerns in Greece weighed on the market in the beginning of the period, along with monetary tightening policies in China. The half-year reporting season was the main focus in February with earnings results generally coming in better than expected. Earnings growth continued to be driven by improved operating margins as opposed to revenue growth. Commodity prices rose over the quarter as demand continued to improve in China.

The Fund (up 1.11%) outperformed its benchmark during the quarter. Contributing to Fund returns were overweight positions in Mesoblast (up 50.00%) and Sphere Investments (up 74.38%), and an underweight position in Sigma Pharmaceutical (down 53.03%). Detracting from returns were underweight positions in Ramsay Healthcare (up 29.52%), Macarthur Coal (up 25.60%), and an overweight position in Beach Petroleum (down 18.75%).

### Top contributors

- Mesoblast rallied on the back of positive broker reports and growing recognition of the value of their technology platform. Anticipation of a merger between the Australian and US business also helped to bolster sentiment.
- Sphere Investments rose following the sharp rally in iron ore prices. In addition, the announcement of successful exploration and metallurgical results from the Askaf Iron Ore project boosted investor sentiment.

- Kinetic does not hold Sigma Pharmaceuticals. The share price suffered a large fall late in the quarter after the company disclosed a large goodwill write down, weaker than expected earnings and a debt restructure.

### Bottom contributors

- Kinetic does not hold Ramsay Healthcare. Ramsay performed strongly over the quarter following a solid first half result and the announcement of the purchase of a majority shareholding in a leading French private hospital operator.
- Kinetic does not have a position in Macarthur Coal. The sharp rise in metallurgical coal prices during the quarter resulted in strong buying of the stock.
- Beach Petroleum fell on the back of a substantial downgrade to Basker-Manta-Gummy reserves (a joint venture with ROC Oil) and a somewhat listless oil price.

### Fund outlook

With the RBA again raising interest rates by 0.25% in March, Australia continues to be in significantly different economic position than the rest of the developed world. Improved profit margins, together with an expected recovery in revenues, should underpin solid profit growth over the balance of the year.

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