

# Kinetic Wholesale Smaller Companies Fund (CNA)

Fund report and commentary – 31 March 2009

Performance						
	Quarter (%)	1 year (%)	3 years (%) p.a.	5 years (%) p.a.	10 years (%) p.a.	Inception (%) p.a.
<b>Kinetic Wholesale Smaller Companies Fund</b>	<b>1.81</b>	<b>-44.79</b>	<b>-12.44</b>	<b>3.77</b>	<b>7.38</b>	<b>8.47</b>
Growth return	1.81	-58.65	-25.93	-14.37	-9.97	-6.59
Distribution return	0.00	13.86	13.49	18.15	17.35	15.06
S&P/ASX Small Ordinaries Accumulation Index	-1.96	-45.77	-13.82	1.15	2.86	4.67

Formerly known as the Kinetic Small Companies Wholesale Fund. Closed to new applications including initial and additional investments.

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 provide capital growth over the medium to long term through an actively managed and diversified portfolio of Australian small company shares, and provide returns above the benchmark, the S&P/ASX Small Ordinaries Accumulation Index, over rolling three-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 predominantly occur at the stock level.

Kinetic uses cash flow analysis to identify companies that they believe have been undervalued or undiscovered by the market.

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

Yearly

## 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 2009

	Fund weight (%)	Index weight (%)	Active weight (%)
Healthscope	6.56	1.80	4.76
Tassal Group	5.06	0.38	4.68
Beach Petroleum	5.09	1.68	3.41
Redflex Holdings	3.61	0.43	3.18
ResMed Inc.	0.00	3.16	-3.16

## Contributors (quarter) as at 31 March 2009

		Active weight (%)*	Value add (%)^
Top contributors	Pan Australian Resources	1.66%	1.58%
	Silex Systems	2.94%	1.06%
	AWB	-0.90%	0.74%
Bottom contributors	Service Stream	0.37%	-0.99%
	Transfield Services Infrastructure Fund	2.09%	-0.60%
	Campbell Brothers	1.72%	-0.56%

\*Active weights are daily averages over the period | ^Relative to benchmark and based on pre fee returns

## Fund facts

	Kinetic Wholesale Smaller Companies Fund
Inception date	31/10/1994
Fund size (\$M)	8.3
APIR code	HBC0006AU

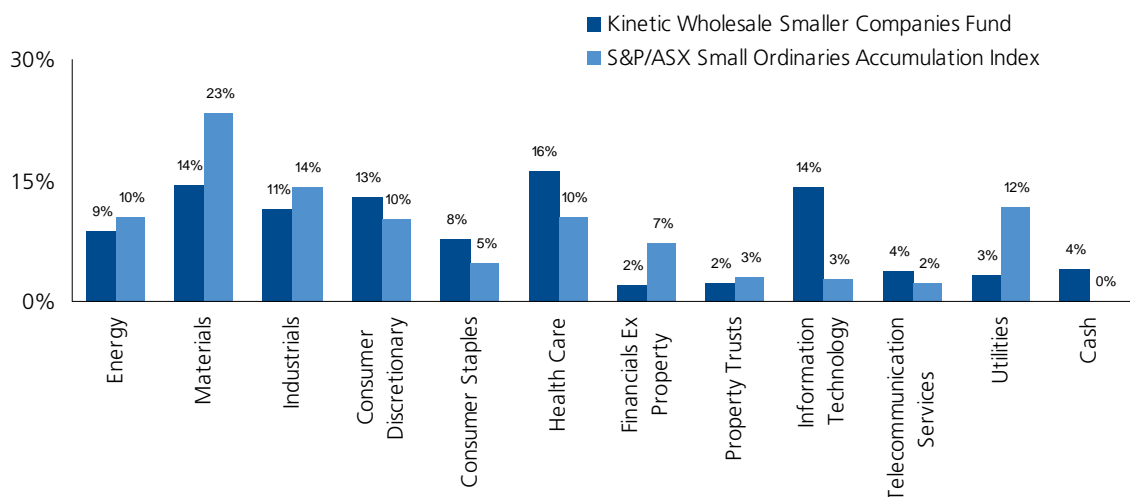
## Fees

	Kinetic Smaller Wholesale Companies Fund
Entry fee	Closed
2007/08 ICR	0.77%
Management fee	0.768% p.a.
Performance fee	Nil
Buy/sell spread	+0.40%/-0.40%

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## Sector exposures as at 28 February 2009



## Commentary

The market ended down 1.96% during the quarter (S&P/ASX Small Ordinaries Accumulation Index). Weak economic data internationally drove markets down during January and February as Australian companies initiated a large number of equity raisings to reduce debt and repair balance sheets. The Small Ordinaries rallied 10.31% in March as positive news from Citigroup and further stimulus plans were announced. March saw a move from defensive industries, which have performed well in light of negative economic news, into cyclical sectors.

The Fund (up 1.81%) outperformed its benchmark during the quarter. Contributing to Fund returns were overweight positions in Pan Australian Resources (up 235.29%) and Silex Systems (up 45.55%), and an underweight position in AWB Limited (down 51.57%). Detracting from returns were overweight positions in Service Stream (down 41.73%), Transfield Services (down 24.12%), and Campbell Brothers (down 22.77%).

**Pan Australian Resources** was up for the quarter after announcing a rollover of its debt facility by more than one year to a new maturity date of 31 March 2010. The company also announced positive operational performance for its Phu Kham Copper-Gold Operation late in the quarter.

**Silex Systems** performed strongly after increased broker coverage and positive expectations ahead of test loops for the Uranium Enrichment Project.

**AWB** was down for the quarter after announcing a profit downgrade for the first half which is approximately 55-65% lower than the previous corresponding half year of \$64.6 million. AWB is being adversely impacted by drought conditions in the southern states and a deregulation of their once monopolistic position.

**Service Stream Limited** was down for the quarter after a weak first half year result and profit downgrade as a slowdown in the economy led to a reduction in business opportunities.

**Transfield** was impacted after the company cut its distributions below previous expectations in order to conserve capital. We remain holders of Transfield as we see potential upside value in the company's large wind portfolio post the introduction of a carbon trading scheme.

**Campbell Brothers** underperformed during the quarter after revising its full year profit forecast from a previously indicated 70% increase in NPAT to a 49% increase. CPB is being impacted by a general slowdown in mining activity which is impacting testing volumes. We continue to hold Campbell Brothers and believe it is well leveraged to any stabilisation in the mining sector.

## Fund outlook

We have seen a sharp rally in global markets in March due to the emergence of some positive news and a cessation of previous heavy selling pressure. Volatility has decreased substantially from the December quarter and equities are trading at extremely low valuations, providing opportunities for investors in the case of an economic recovery. However a strengthening and further de-leveraging of the global financial system will be required before markets can undertake a sustained rally. The Australian economy appears better placed than many other western developed countries to weather further turmoil.

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