Kinetic Wholesale Smaller Companies Fund (CNA)

Fund report and commentary – 31 December 2009

Performance

	Quarter (%)	1 year (%)	3 years (%) p.a.	5 years (%) p.a.	10 years (%) p.a.	Inception (%) p.a.
Kinetic Wholesale Smaller Companies Fund	**7.17**	**64.94**	**-4.38**	**7.26**	**11.14**	**11.52**
Growth return	7.17	61.76	-18.60	-7.33	-6.29	-3.37
Distribution return	0.00	3.18	14.21	14.59	17.43	14.89
S&P/ASX Small Ordinaries Accumulation Index	4.88	57.43	-4.80	6.73	6.24	7.75

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 30 November 2009

	Fund weight (%)	Index weight (%)	Active weight (%)
Healthscope	5.58	1.50	4.08
Campbell Brothers	2.47	0.00	2.47
PIPE Networks	2.41	0.00	2.41
Tassal Group	2.55	0.19	2.36
SAI Global	2.88	0.59	2.29

Contributors (quarter) as at 31 December 2009

		Active weight (%)*	Value add (%)^
Top contributors	Thorn Group	1.83	0.57
	Nanosonic	1.81	0.49
	Beach Petroleum	2.27	0.39
Bottom contributors	Nexbis	0.94	-1.34
	Aquila Resources	-1.22	-0.62
	Nomad Building Solutions	0.81	-0.53

*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)	11.6
APIR code	HBC0006AU

Fees

	Kinetic Smaller Wholesale Companies Fund
Entry fee	Closed
2008/09 ICR	0.82%
Management fee	0.768%p.a.
Performance fee	Nil
Buy/sell spread	+0.40%/-0.40%

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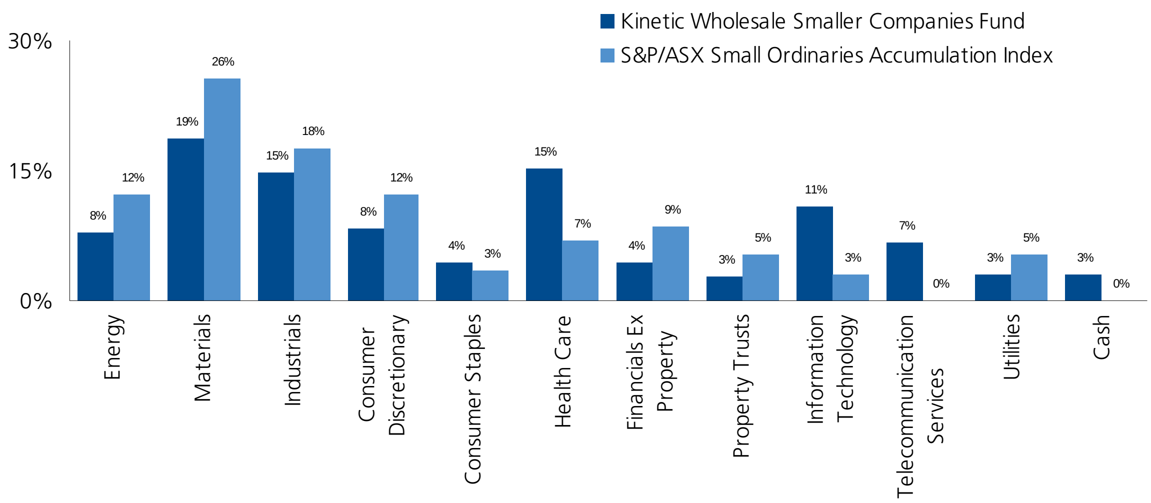
Sector exposures as at 30 November 2009



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 7.52% 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 Portfolio returns were overweight positions in Thorn Group (up 41.09%), Nanosonic (up 35.39%), and Beach Petroleum (up 24.28%). Detracting from returns were overweight positions in Nexbis (down 56.52%), and Nomad (down 38.04%) 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.

Beach Petroleum was up for the quarter due to earnings optimism over the shale gas land grab and robust oil 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.