

Kinetic Wholesale Smaller Companies Fund (CNA)

Fund report and commentary – 31 March 2010

| Performance | | | | | | |
|---|-------------|--------------|------------------|------------------|-------------------|--------------------|
| | Quarter (%) | 1 year (%) | 3 years (%) p.a. | 5 years (%) p.a. | 10 years (%) p.a. | Inception (%) p.a. |
| Kinetic Wholesale Smaller Companies Fund | 0.83 | 63.35 | -6.42 | 6.81 | 10.43 | 11.39 |
| Growth return | 0.83 | 60.20 | -20.33 | -7.71 | -6.89 | -3.26 |
| Distribution return | 0.00 | 3.15 | 13.91 | 14.53 | 17.32 | 14.65 |
| S&P/ASX Small Ordinaries Accumulation Index | -1.57 | 58.06 | -7.48 | 5.84 | 6.61 | 7.51 |

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 2010 | | | |
|--|-----------------|------------------|-------------------|
| | Fund weight (%) | Index weight (%) | Active weight (%) |
| Campbell Brothers | 2.68 | 0.00 | 2.68 |
| Navitas | 2.50 | 0.00 | 2.50 |
| SAI Global | 3.15 | 0.66 | 2.49 |
| SMS Management | 2.89 | 0.51 | 2.38 |
| PIPE Networks | 2.30 | 0.00 | 2.30 |

| Contributors (quarter) as at 31 March 2010 | | | |
|--|----------------------|--------------------------------|----------------------------|
| | | Active weight (%) [*] | Value add (%) [^] |
| Top contributors | Mesoblast | 2.34 | 0.87 |
| | Sphere Investments | 1.45 | 0.73 |
| | Sigma Pharmaceutical | -1.14 | 0.59 |
| Bottom contributors | Ramsay Health Care | -1.55 | -0.40 |
| | Macarthur Coal | -1.43 | -0.39 |
| | Beach Petroleum | 1.98 | -0.38 |

^{*}Active weights are daily averages over the period | [^]Relative to benchmark and based on pre-fee returns.

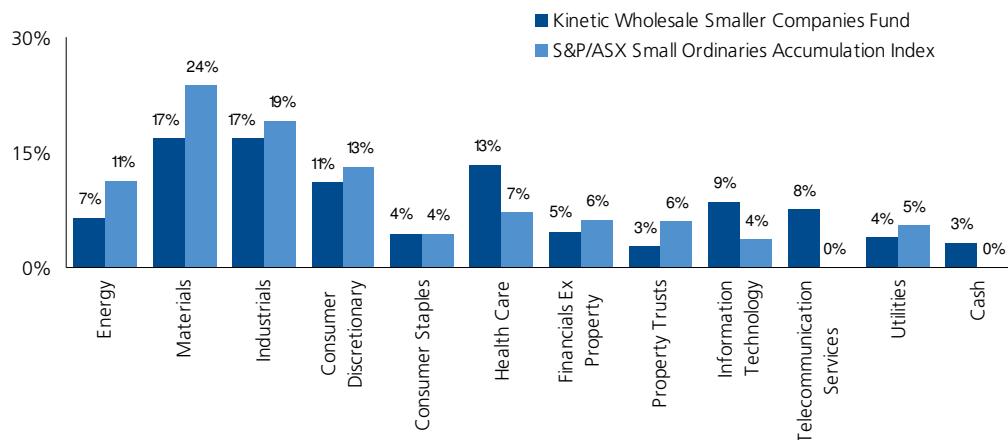
| Fund facts | |
|-----------------|--|
| | Kinetic Wholesale Smaller Companies Fund |
| Inception date | 31/10/1994 |
| Fund size (\$M) | 11.4 |
| APIR code | HBC0006AU |

| 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% |

Kinetic Smaller Companies Fund (CNA)

Fund report and commentary – 31 March 2010

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.

Any information contained in this publication is current as at 31/03/10 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. 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.