

Kinetic Wholesale Smaller Companies Fund (CNA)

Fund report and commentary – 30 September 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	21.59	7.22	-1.32	8.94	11.25	11.21
Growth return	21.59	5.15	-15.99	-5.88	-6.19	-3.87
Distribution return	0.00	2.07	14.67	14.82	17.45	15.08
S&P/ASX Small Ordinaries Accumulation Index	21.82	6.26	-1.65	7.62	6.59	7.54

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	95	90-100
Cash	5	0-10

Top five active positions as at 31 August 2009

	Fund weight (%)	Index weight (%)	Active weight (%)
Healthscope	5.60	1.48	4.12
Tassal Group	2.76	0.21	2.55
Silex Systems	3.50	1.01	2.49
PIPE Networks	2.46	0.00	2.46
Nexbis	2.36	0.00	2.36

Contributors (quarter) as at 30 September 2009

		Active weight (%) [*]	Value add (%) [^]
Top contributors	Hastie Group	1.62	0.74
	Nomad Building Solutions	1.03	0.72
	Peplin	1.47	0.62
Bottom contributors	Tassal Group	2.69	-1.00
	Beach Petroleum	2.07	-0.57
	Macquarie Leisure Trust Group	1.55	-0.51

^{*}Active weights are monthly averages over the period | [^]Calculated daily, relative to benchmark and based on pre fee returns

Fund facts

	Kinetic Wholesale Smaller Companies Fund
Inception date	31/10/1994
Fund size (\$M)	11.5
APIR code	HBC0006AU

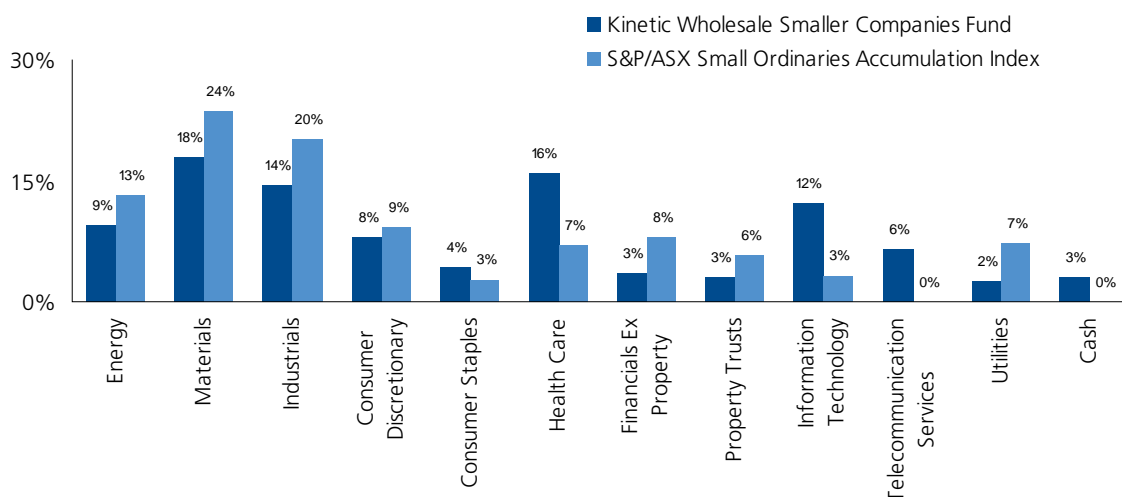
Fees

	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 31 August 2009



Commentary

The market ended up 21.82% during the quarter (S&P/ASX Small Ordinaries Accumulation Index). Early cyclicals were key performers with Consumer Discretionary, Industrials and Financials all up strongly. The reporting season was the major theme and the bulk of companies generally came out with results either in line or ahead of consensus which was encouraging as decreases in earnings have now largely been factored into share prices. Small cap companies generally performed better than large caps during the quarter as operating margins played a larger role in the rally. The Australian economy continued to perform better than other western counterparts with unemployment falling for September and post quarter end the RBA raising interest rates in early October.

The Fund slightly underperformed its benchmark during the quarter. Contributing to Fund returns were overweight positions in Nomad Building (up 132.98%), Peplin (up 72.12%), and Hastie Group (up 79.53%). Detracting from returns were overweight positions in Tassal Group (down 8.25%), Beach Petroleum (down 2.69%), and Macquarie Leisure Trust (up 1.41%).

Nomad Building achieved its profit guidance and benefited from the appointment of a new Managing Director. During the quarter the company announced several significant contract wins, including work on the Gorgon Liquefied Natural Gas project.

LEO Pharma, a privately held pharmaceutical company, announced a cash takeover offer for Peplin during the quarter at a significant premium to its previous trading price.

Hastie Group reported a solid full year result and pleasing level of revenue commitments locked in for the current financial year. The company has a greatly improved balance sheet following an earlier capital raising.

Tassal announced a disappointing profit result which was below previous guidance. In addition, the company also announced increased capital spending plans.

Beach Petroleum underperformed the market due to a flat performance from the oil price and lack of news flow.

Macquarie Leisure (now Ardent Leisure) lagged the market's advance due to perceived relatively defensive earnings stream and was also weighed down by an earlier capital raising.

Fund outlook

Whilst the earnings revision ratio has turned positive for the first time in two years, we will need to see further evidence of earnings growth to form a base for a further rise in markets. Business and consumer confidence indicators are improving and the RBA's decision to increase interest rates post the end of the quarter indicates a quicker turnaround in the Australian economy than international counterparts.

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