

Kinetic Emerging Companies Fund

Small companies, broad sector exposure

The Kinetic Emerging Companies Fund aims to outperform the S&P/ASX Small Ordinaries Accumulation Index over a five year rolling period by exploiting inefficiencies in the small companies sector of the market.

Fund features

- Invests in between 30 and 70 companies that are outside of the S&P/ASX 100, and generally with a market capitalisation of more than \$25 million. These companies are referred to as emerging or small companies.
- Aims to consistently generate excess returns relative to the benchmark on a risk-adjusted basis.
- Companies are analysed using a 'cash flow return on investment' (CFROI) methodology.
- Is managed using a comprehensive, multi-faceted approach to risk management.

Key advantages

- The Fund's investment universe covers all sectors of the small companies market, allowing broad diversification with the aim to reduce risk.
- The Fund is managed by a stable and experienced investment team, with a successful history of managing small company funds.
- The investment process is well established and tested for small company investment.

Emerging companies explained

Emerging companies have smaller market capitalisation (a measure of the size of a company) than the largest 100 companies on the Australian Securities Exchange (S&P/ASX 100 Index). Whilst these companies have the potential to offer higher investment returns they can be higher risk than their larger counterparts. They may also provide portfolio diversification.

When to use the Fund

The Fund may suit investors looking for:

- Exposure to small companies.
- Diversification and potentially reduced risk.
- A fund managed by a stable and experienced team.
- The potential for long-term capital growth.



How Kinetic invests

Kinetic finds investment opportunities using a disciplined research and valuation process. Kinetic focuses on a company's ability to create shareholder wealth by generating a cash flow return on investment in excess of the firm's cost of capital.

The key drivers of a company are understood by a careful assessment of both quantitative and qualitative information, regarding a company's business environment and strategies.

Kinetic models the company using its CFROI methodology to determine whether the market is correctly valuing the company. However, on occasions, a discounted cash flow methodology is more appropriate (such as for toll road investments).

The advantage of using CFROI is that it values the underlying cash flow of a business and is therefore not impacted by differing accounting principles. This allows a consistent valuation approach across different market sectors.

What is CFROI?

Cash flow return on investment (CFROI) is a way of valuing companies based on cash flow, not on corporate performance and earnings. It is the ratio of gross cash flow earned in a period to capital invested, and measures a company's profitability.

Investment process

- **Identifying the opportunities.** There are over 700 companies in Kinetic's investable universe. The Kinetic team follows a strict regime to find investment opportunities within this universe. By reviewing a broad range of shares with a rigorous identification process, Kinetic can uncover hidden opportunities.
- **Fundamental research.** There are four primary areas of research: management and strategy, key drivers of a company, industry structure, and catalysts for change. Company interviews are the primary source of internal research. As such, Kinetic undertakes a large number of company visits and engagements with company management.
- **Portfolio construction.** The weight of each stock is determined by considering fundamental research, risk/return trade off, the investment's liquidity, and the market capitalisation of the company.
- **Risk management.** Risk management is applied at a stock level and operates around the simple risk/return principle: that the portfolio will be rewarded for the proportion of risk taken.



Fund snapshot	
Fund name	Kinetic Wholesale Emerging Companies Fund
Investment universe	Small companies that are listed (or expected to be listed within six months) on the Australian Securities Exchange. Small companies are defined as those companies lying outside the S&P/ASX 100 Index with a market capitalisation of generally greater than \$25 million. This universe currently consists of 700-plus companies.
Investment objective	The Fund aims to outperform its benchmark over rolling five year periods
Style	Style neutral
Benchmark	S&P/ASX Small Ordinaries Accumulation Index
Inception date	March 2007
Suggested investment timeframe	At least five years
Distribution frequency	Yearly (30 June)
Management fee	1.15% p.a.
Performance fee	20% of the Fund's after management fee return above the benchmark
Buy/sell spread	+0.40% on entry and -0.40% on exit

About Kinetic

Founded by Richard Sharp and Jonathan Findlay in 2005, Kinetic Investment Partners is a boutique investment manager, focusing on the small caps sector of the market. Prior to establishing Kinetic, Richard and Jonathan worked together at a large international funds management firm.

Kinetic's partnership with Challenger, an equity partner in Kinetic, gives them important administrative and distribution support, leaving the fund managers free to concentrate on their core business of managing assets.

How to access the Fund

The Kinetic Emerging Companies Fund is available via the relevant product disclosure statement on the Challenger website, as well as a range of platforms. Call Challenger Investor Services on 13 35 66 or speak to your financial adviser for more information.



More information

The Challenger Client Services team is available Monday to Friday, from 8 am to 6 pm EST.

- **Investors** please call **13 35 66**
- **Advisors** please call **1800 621 009**

The information in this document is current as at April 2011 unless otherwise specified and is provided by Challenger Managed Investments Limited ABN 94 002 835 592 AFSL 234668 (Challenger) the issuer of the Kinetic Wholesale Emerging Companies Fund ARSN 123 209 218 otherwise referred to in this document as the Kinetic Emerging Companies Fund (Fund). Kinetic Investment Partners Limited AFSL 234674 is the investment manager of the Fund. The information is general information rather than advice and does not take into account the investment objectives, financial situation and particular needs of an investor. Each person should obtain and consider the Product Disclosure Statement (PDS) for the Fund and consider whether or not the Fund is appropriate for them before deciding whether to acquire, continue to hold or dispose of units in the Fund.

Challenger is the issuer and responsible entity of the Fund and Kinetic is the investment manager. Before making an investment decision in respect of the Fund, prospective investors should consider the appropriateness of this information having regard to their objectives, financial situation and needs. Prospective investors should also obtain and consider the information in the current product disclosure statement (PDS) for the Fund, a copy of which can be downloaded from Challenger's website www.challenger.com.au or from their financial adviser or Challenger's Investor Services team on 13 35 66 (Australia only). They should read the PDS carefully before making an investment decision (including whether to acquire or continue to hold any investment in the Fund). Where a person acquires or holds units in the Fund, Challenger will receive fees and/or other benefits disclosed in the PDS. Neither Challenger, its related bodies corporate nor any Challenger Group employee receives any specific remuneration for advice provided in respect of the Fund. Some or all of Challenger group companies and their directors may benefit from fees, commissions and other benefits received by another group company.

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