

Kinetic Wholesale Emerging Companies Fund

Fund report and commentary – 30 June 2008

Performance						
	Quarter (%)	1 year (%)	3 years (%) p.a.	5 years (%) p.a.	10 years (%) p.a.	Inception (%)
Kinetic Wholesale Emerging Companies Fund	-4.31	-24.24	-	-	-	-9.81
Growth return	-6.54	-26.00	-	-	-	-11.67
Distribution return	2.23	1.76	-	-	-	1.85
S&P/ASX Small Ordinaries Accumulation Index	-4.56	-20.46	-	-	-	-7.50

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 outperform its benchmark, the S&P/ASX Small Ordinaries Accumulation Index, over rolling five-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 predominately occur at the stock level.

Kinetic uses cash flow analysis to identify companies that they believe have been undervalued / undiscovered by the market. By focusing on cash flow, Kinetic minimises their exposure to accounting manipulations and changes in accounting standards.

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

Quarterly

Suggested minimum investment timeframe

At least five years

Asset allocation		
	Current (%)	Range (%)
Securities	94	90-100
Cash	6	0-10

Top five active positions as at 31 May 2008			
	Fund weight (%)	Index weight (%)	Active weight (%)
ConnectEast Group	4.20	0.00	4.20
Healthscope	4.09	0.75	3.35
Tassal Group	3.50	0.23	3.26
Mount Gibson Iron	4.73	1.55	3.18
Sphere Investments	3.14	0.00	3.14

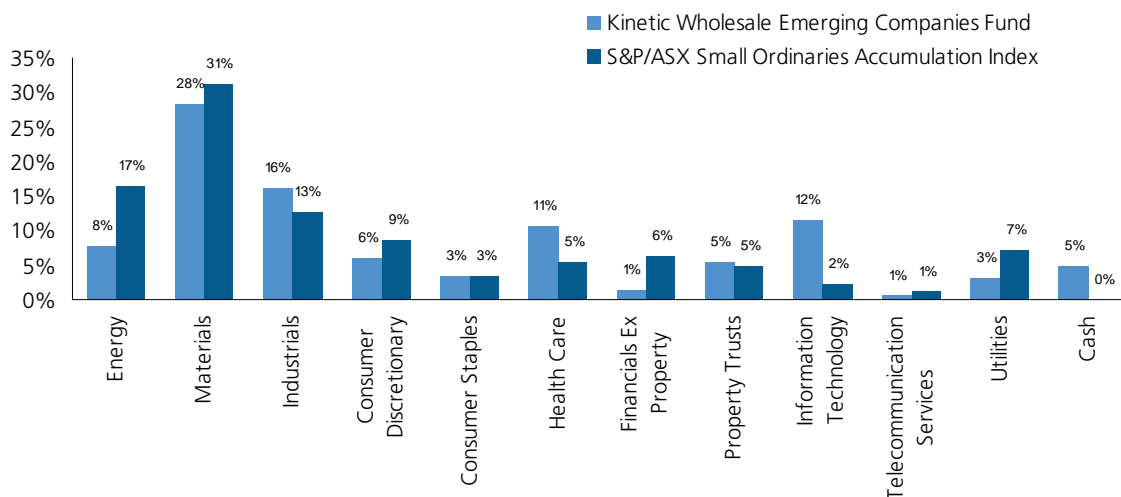
Fund facts	
	Kinetic Wholesale Emerging Companies Fund
Inception date	12/3/2007
Fund size (\$M)	19.24
APIR code	HOW0036AU

Fees	
	Kinetic Wholesale Emerging Companies Fund
Entry fee	Nil
2006/07 ICR	n/a
Management fee	1.15%p.a.
Performance fee	20% of the Fund's gross return over and above the Index plus 1.15 %p.a.
Buy/sell spread	+0.40%/-0.40%

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Sector exposures as at 31 May 2008



Commentary

The June quarter marked the end of one of the worst financial years in 26 years. The small caps sector underperformed the broader Australian equities market during the quarter returning -4.56% (S&P/ASX Small Ordinaries Accumulation Index). The Australian equity market continued to experience a dichotomy as the Energy and Materials sectors performed strongly while the Financials and Property sectors were weak. Economic data released during the quarter points to a softening economy with weaker than expected retail sales data and falling employment levels however inflationary pressures continue to be a concern.

The Portfolio outperformed its benchmark during the month. Contributing to Portfolio returns were overweight positions in **Sphere Investments** (up 71.35%), **Windimurra Vanadium** (35.58%) and **Silex Systems** (up 50.19%). Detracting from returns were overweight positions on **ConnectEast** (down 31.20%), **Babcock & Brown Power** (down 60.74%) and an underweight position in **Arrow Energy** (up 95.74%).

Despite no significant news flow, Sphere Investments, an iron-ore exploration and development company ended the quarter higher due to positive investor sentiment towards the company. Windimurra Vanadium, a large scale vanadium producer also ended the quarter higher supported by the strengthening price of vanadium which is a key component in the production of steel and growing investor confidence on the expected completion of the company's vanadium project near Mount Magnet. Silex Systems, a technology innovation company rose over the quarter due to the positive reaction to news of Cameco's investment in the Global Laser Enrichment Venture. Cameco's involvement provides further validation to Silex's technology.

ConnectEast owns and operates the EastLink road. Despite opening the project ahead of schedule and on budget, the stock fell over the quarter due to the irrational behaviour of investor's concerns over initial traffic numbers. Babcock & Brown Power also fell over the quarter on news of the company's funding shortfall and a decision to cut distributions as part of a capital management program. The security was also hit due to a gas explosion at its Varanus Island energy plant in Western Australia. Arrow Energy announced the acquisition by Shell of 30% of its assets which resulted in an upward revaluation in the company.

Fund outlook

During the quarter we have witnessed the acceleration in the number of negative economic indicators from the US and Australia signalling continued uncertainty in financial markets as the impact on the real economy continues to play out. We expect investor sentiment to remain negative as a result of weak economic data in the US and soaring energy prices, suggesting the US economy could endure a period of stagflation. Moreover weak domestic consumer sentiment data suggests the resilient Australian economy could come under pressure. With the financial year over, we expect the upcoming reporting season to deliver some downgrades in earnings. Nevertheless we believe that current equity prices are largely reflecting any earnings downgrades and we remain optimistic of an equity market recovery in the medium term albeit with possibly some continued softening in stock performance in the near term as the market bounces around current levels.

Any information contained in this publication is current as at 30/06/08 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 Statement 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 some 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.