

Kinetic Wholesale Emerging Companies Fund

Fund report and commentary – 30 June 2009

Performance						
	Quarter (%)	1 year (%)	3 years (%) p.a.	5 years (%) p.a.	10 years (%) p.a.	Inception (%)
Kinetic Wholesale Emerging Companies Fund	24.31	-26.75	-	-	-	-17.61
Growth return	20.42	-29.04	-	-	-	-19.68
Distribution return	3.89	2.29	-	-	-	2.08
S&P/ASX Small Ordinaries Accumulation Index	25.69	-28.58	-	-	-	-17.33

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	96	90-100
Cash	4	0-10

Top five active positions as at 31 May 2009			
	Fund weight (%)	Index weight (%)	Active weight (%)
Tassal Group	4.24	0.33	3.91
Healthscope	4.87	1.49	3.38
Silex Systems	4.13	0.98	3.15
Entertainment Media & Telecoms Corporation	2.83	0.00	2.83
JB Hi-Fi	2.60	0.00	2.60

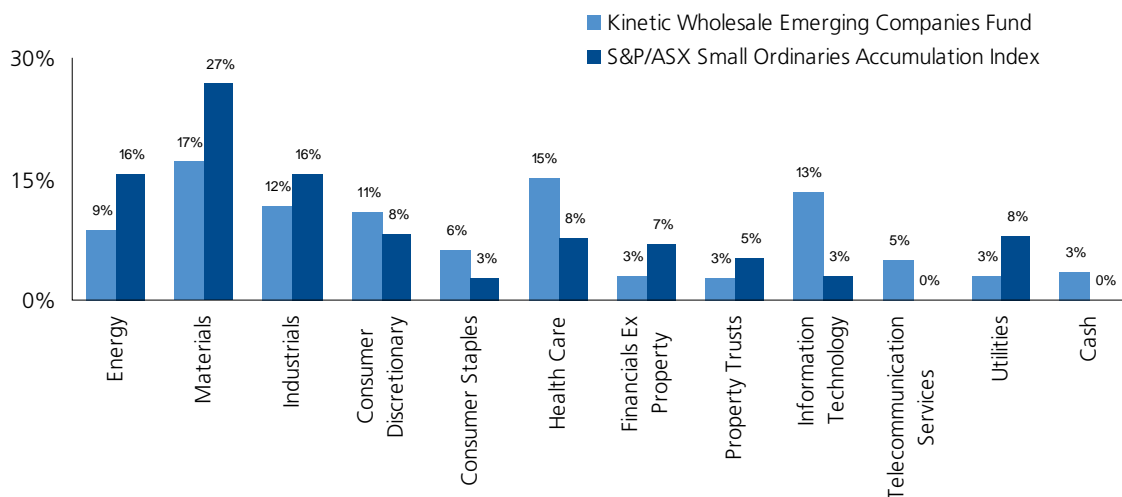
Fund facts	
	Kinetic Wholesale Emerging Companies Fund
Inception date	12/3/2007
Fund size (\$M)	19.52
APIR code	HOW0036AU

Fees	
	Kinetic Wholesale Emerging Companies Fund
Entry fee	Nil
2007/08 ICR	1.56%
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 2009



Commentary

The market ended up 25.69% during the quarter (S&P/ASX Small Ordinaries Accumulation Index). Cyclical continued to outperform defensives, with small caps outperforming the broader market. Capital placements were a prominent theme during the quarter as corporates sought to take advantage of rallying markets. Consumer spending improved following Government cash handouts, with the Consumer Discretionary sector being one of the top performers. Commodities, oil prices and the Australian dollar strengthened significantly during the quarter. The Australian economy has held up well in comparison to other developed countries, being the only country to avoid a technical recession.

The Fund (up 24.31%) underperformed its benchmark during the quarter. Contributing to the Fund's returns were overweight positions in Oakton (up 175.32%) and SMS Management (up 66.38%), and an underweight position in St Barbara (down 45.88%). Detracting from returns were overweight positions in Redflex Holdings (down 29.51%), Beach Petroleum (down 10.23%), and Melbourne IT (down 24.19%).

Oakton was up strongly for the quarter after a pick up in their Federal Government business and an increased level of confidence on the level of IT project opportunities.

SMS Management was up after posting positive first half financial year 2009 results and an improving macro background for IT services.

St Barbara (not held) was down for the quarter after announcing a disappointing quarterly production result.

Redflex was weak after a profit downgrade during the quarter due to issues with the Arizona speed contract and the negative impact of the appreciating Australian dollar.

Beach Petroleum underperformed after selling its 40% interest in the Tipton West coal seam gas asset.

Melbourne IT fell for the quarter after flagging lower than expected first half earnings at its AGM.

Fund outlook

The looming full year profit reporting season will be a significant litmus test of the underlying strength of the economy. Moreover, outlook comments for the coming financial year will be closely scrutinised. In this regard, we expect the present stimulatory monetary and fiscal policies to be increasingly felt over the balance of this year and into 2010. Any pick up in economic activity should be supportive of the small cap sector. While further capital raisings may weigh on the market, overall we anticipate a positive tone to the sector over the coming quarters.

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