

# Kinetic Wholesale Emerging Companies Fund

Fund report and commentary – 31 March 2008

Performance						
	Quarter (%)	1 year (%)	3 years (%) p.a.	5 years (%) p.a.	10 years (%) p.a.	Inception (%)
<b>Kinetic Wholesale Emerging Companies Fund</b>	<b>-22.42</b>	<b>-10.77</b>	-	-	-	<b>-8.23</b>
Growth return	-22.42	-11.08	-	-	-	-8.54
Distribution return	0.00	-0.31	-	-	-	0.31
S&P/ASX Small Ordinaries Accumulation Index	-15.35	-7.62	-	-	-	-5.08

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 29 February 2008			
	Fund weight (%)	Index weight (%)	Active weight (%)
ConnectEast Group	4.92	0.00	4.92
Healthscope	4.21	0.92	3.29
Transfield Services	4.48	1.35	3.13
Anzon Australia	3.01	0.00	3.01
Tassal Group	2.89	0.00	2.89

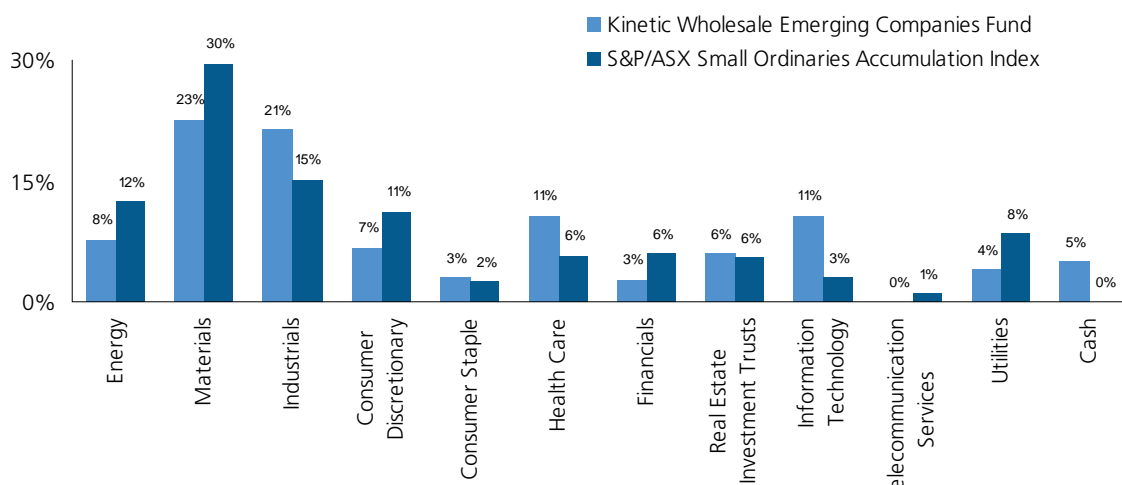
Fund facts	
	Kinetic Wholesale Emerging Companies Fund
Inception date	12/3/2007
Fund size (\$M)	16.28
APIR code	HOW0036AU

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 29 February 2008



## Commentary

The small cap sector ended the March quarter down 15.35% (S&P/ASX Small Ordinaries Accumulation Index) underperforming the broader Australian equities market. The Australian equity market experienced its worst performance since 1987 as volatility and the threat of a US led global slowdown weighed heavily on returns.

The Portfolio underperformed its benchmark during the quarter. Contributing to Portfolio returns were underweight positions in Octavir Limited (down 77.50%), Centro Retail Group (down 64.21%) and FKP Property Group (down 55.12%). Detracting from performance was overweight positions in Tassal Group (down 44.76%), APN/UKA European Retail Trust (down 63.00%) and JB Hi-Fi (down 41.67%).

Octavir Limited (previously known as MFS Limited) fell sharply over the quarter after the market reacted negatively to an announcement that the company's management was looking to raise additional capital, sparking fears the business is facing difficulties with its balance sheet and debt position. Centro Retail Group also performed poorly during the quarter. The market continues to show little confidence in Centro Properties Group, including Centro Retail, given the difficulties it has experienced in refinancing its debt book. Also contributing to performance was an underweight holding in FKP Property Group which fell over the quarter. The stock experienced substantial downgrading as the market punished leveraged vehicles.

Tassal Group ended the quarter lower after a capital raising in January. The stock traded on a high price to earnings ratio and after releasing its half yearly profit results that were slightly below expectations, the stock was re-rated down. APN/UKA European Retail Trust suffered from strong selling in the Listed Property Trust sector throughout the quarter. In addition the markets caution towards geared property vehicles with off-shore exposure weighed on the stock. While the company's overall debt position is well within guidelines, an asset in Spain was potentially in breach of its debt covenants. JB Hi-Fi fell over the quarter despite reporting strong half yearly profit results as investors were more concerned with the outlook for the company and the prospect of a slow down in discretionary expenditure impacting a high price to earnings ratio stock.

## Fund outlook

Activity in equity markets over recent months has priced in a mild recession in the US. Our view is that the worst is past us however investor cautiousness is likely to continue which will result in equity markets remaining at current levels in the short term. Domestically Australia's economy remains relatively strong in contrast to the US, however rising interest rates will see the pressure on inflation ease and growth to moderate. Over the medium term we are optimistic of a recovery in equity markets.

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