

Kinetic Wholesale Emerging Companies Fund

Fund report and commentary – 31 December 2008

Performance						
	Quarter (%)	1 year (%)	3 years (%) p.a.	5 years (%) p.a.	10 years (%) p.a.	Inception (%)
Kinetic Wholesale Emerging Companies Fund	-29.93	-57.12	-	-	-	-31.49
Growth return	-29.93	-58.11	-	-	-	-32.51
Distribution return	0.00	0.99	-	-	-	1.02
S&P/ASX Small Ordinaries Accumulation Index	-29.21	-53.17	-	-	-	-30.10

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 30 November 2008			
	Fund weight (%)	Index weight (%)	Active weight (%)
Healthscope	6.73	1.53	5.20
Tassal Group	4.32	0.30	4.02
Beach Petroleum	4.73	1.48	3.25
The Reject Shop	3.65	0.41	3.24
Redflex Holdings	3.58	0.40	3.18

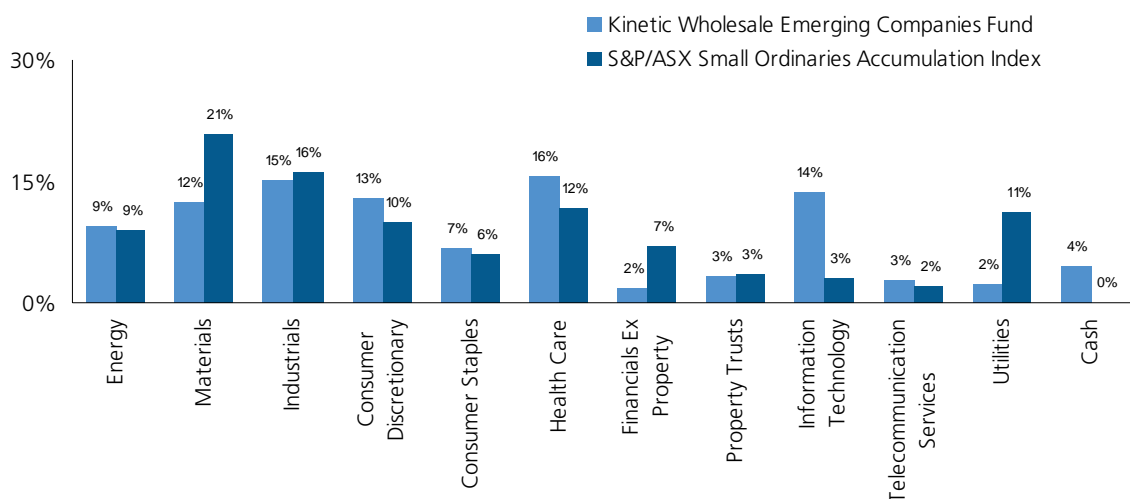
Fund facts	
	Kinetic Wholesale Emerging Companies Fund
Inception date	12/3/2007
Fund size (\$M)	18.9
APIR code	HOW0036AU

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 30 November 2008



Commentary

The small cap equities market underperformed large cap equities, ending down 29.21% for the December quarter (S&P/ASX Small Ordinaries Accumulation Index). Volatility continued in the quarter with October and November being particularly weak months. Major events influencing the performance of the small cap market included the slowing demand for resources globally, with the subsequent affect being major mining projects being put on hold. In addition, credit market conditions remained constrained, with many firms being forced to seek capital from equity markets, often at heavy discounts to the stock price. In addition to various fiscal stimulus packages, interest rates fell globally during the quarter, providing some support for consumers hit hard from slowing economies and rising unemployment.

The Portfolio (down 29.93%) underperformed its benchmark during the quarter (down 29.21%). Contributing to Portfolio returns were overweight positions in Healthscope (down 3.91%), Redflex Holdings (up 41.96%) and Beach Petroleum (up 6.08%). Detracting from returns were overweight positions in Windimurra Vanadium (down 84.93%), Pan Australian Resources (down 84.68%) and Mount Gibson Iron (down 72.87%).

Healthscope continues to outperform in turbulent times. A strong organic growth profile (via brownfield expansions), an undemanding valuation and good management team see this stock as a current core holding in the portfolio.

Redflex Holdings continues to win speed and red light camera contracts, announcing five new contracts in December. The company also updated the market on the status of indicative bids received, with further clarity due in February.

Beach Petroleum Limited provided clarity around their strong hedging profile, with a significant amount of production in the next six months underpinned at a minimum of US\$60 per barrel. Further consolidation in the Coal Seam Gas (CSG) space also pointed to the inherent value in Beach's CSG position.

Windimurra Vanadium was sold down over the realisation that the company needs to raise additional capital to complete commissioning of their Windimurra Vanadium project.

Mount Gibson Iron fell for the quarter after declines in iron ore spot prices and the renegeing of contracts by Chinese firms.

Pan Australian Resources fell following collapsing copper prices and concerns about roll over of debt for 2009.

Fund outlook

Equity markets are currently trading at significantly lower valuations, with a fall in earnings already being priced in for many companies. However, it is likely that earnings guidance will continue to be cut into the New Year, as the extent of the economic slowdown, increasing unemployment and falling commodity markets takes full affect. The Australian Federal Government and Reserve Bank have acted quickly to stimulate the economy, cutting interest rates and introducing a stimulus package and this should provide some support to falling consumer sentiment.

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