

Kinetic Wholesale Smaller Companies Fund (CNA)

Fund report and commentary – 30 June 2009

Performance						
	Quarter (%)	1 year (%)	3 years (%) p.a.	5 years (%) p.a.	10 years (%) p.a.	Inception (%) p.a.
Kinetic Wholesale Smaller Companies Fund	24.34	-28.22	-5.84	8.00	9.98	9.94
Growth return	21.93	-29.60	-19.84	-6.68	-7.27	-5.21
Distribution return	2.40	1.38	14.00	14.68	17.25	15.15
S&P/ASX Small Ordinaries Accumulation Index	25.69	-28.58	-6.38	5.58	5.10	6.23

Formerly known as the Kinetic Small Companies Wholesale Fund. Closed to new applications including initial and additional investments.

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 provide capital growth over the medium to long term through an actively managed and diversified portfolio of Australian small company shares, and provide returns above the benchmark, the S&P/ASX Small Ordinaries Accumulation Index, over rolling three-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 predominantly occur at the stock level.

Kinetic uses cash flow analysis to identify companies that they believe have been undervalued or undiscovered by the market.

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

Yearly

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	4.21	0.33	3.88
Healthscope	4.82	1.49	3.33
Silex Systems	4.12	0.98	3.14
Entertainment Media & Telecoms Corporation	2.86	0.00	2.86
JB Hi-Fi	2.64	0.00	2.64

Contributors (quarter) as at 30 June 2009

		Active weight (%)*	Value add (%)^
Top contributors	Oakton	1.31	1.04
	SMS Management & Technology	2.61	0.92
	St Barbara	-0.59	0.84
Bottom contributors	Redflex Holdings	1.59	-1.50
	Beach Petroleum	2.29	-1.09
	Melbourne IT	1.27	-0.83

*Active weights are monthly averages over the period | ^Calculated daily, relative to benchmark and based on pre fee returns

Fund facts

	Kinetic Wholesale Smaller Companies Fund
Inception date	31/10/1994
Fund size (\$M)	9.8
APIR code	HBC0006AU

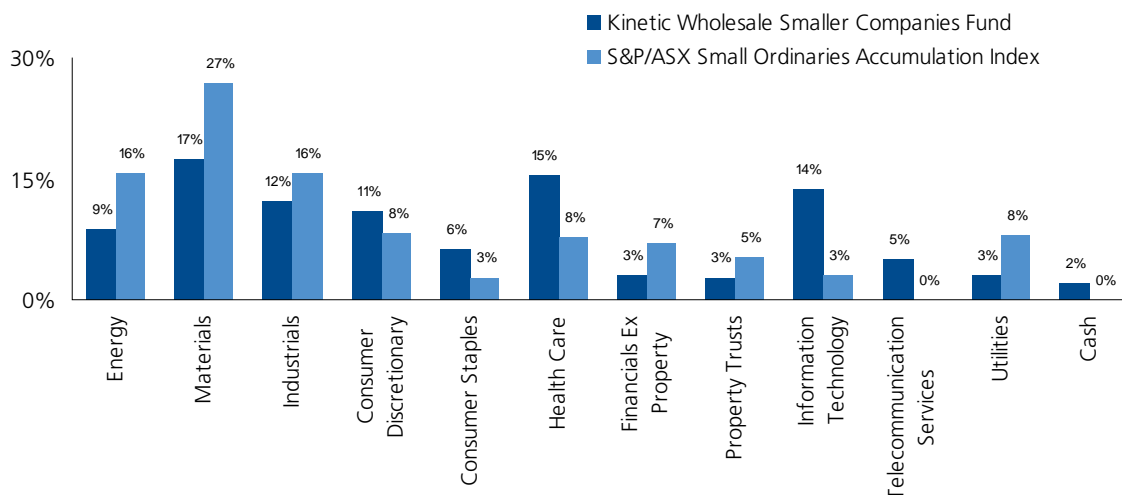
Fees

	Kinetic Smaller Wholesale Companies Fund
Entry fee	Closed
2007/08 ICR	0.77%
Management fee	0.768% p.a.
Performance fee	Nil
Buy/sell spread	+0.40%/-0.40%

Kinetic Smaller Companies Fund (CNA)

Fund report and commentary – 30 June 2009

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.

Any information contained in this publication is current as at 30/06/09 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 PDS 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 any 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.