

Kinetic Wholesale Smaller Companies Fund (CNA)

Fund report and commentary – 31 December 2007

Performance						
	Quarter (%)	1 year (%)	3 years (%) p.a.	5 years (%) p.a.	10 years (%) p.a.	Inception (%) p.a.
Kinetic Wholesale Smaller Companies Fund	-1.26	26.53	27.13	31.10	18.50	16.62
Growth return	-1.26	6.28	10.43	13.18	1.30	1.21
Distribution return	0.00	20.25	16.70	17.92	17.20	15.40
S&P/ASX Small Ordinaries Accumulation Index	-1.01	17.05	23.39	25.77	12.39	11.53

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	97	90-100
Cash	3	0-10

Top five active positions as at 30 November 2007

	Fund weight (%)	Index weight (%)	Active weight (%)
ConnectEast Group	5.01	0.00	5.01
JB Hi-Fi	4.73	1.12	3.61
Transfield Services	4.88	1.49	3.39
Tassal Group	3.20	0.00	3.20
Incitec Pivot	2.95	0.00	2.95

Contributors (quarter) as at 31 December 2007

		Active weight (%)*	Value add (%)^
Top contributors	Incitec Pivot	3.16	0.99
	Tassal Group	3.23	0.71
	Centro Retail Group	-1.21	0.60
Bottom contributors	Boom Logistics	1.42	-0.67
	Credit Corp Group	0.59	-0.55
	Riversdale Mining	-1.04	-0.54

*Active weights are daily averages over the period | ^Relative to benchmark and based on pre fee returns

Fund facts

	Kinetic Wholesale Smaller Companies Fund
Inception date	31/10/1994
Fund size (\$M)	30.0
APIR code	HBC0006AU

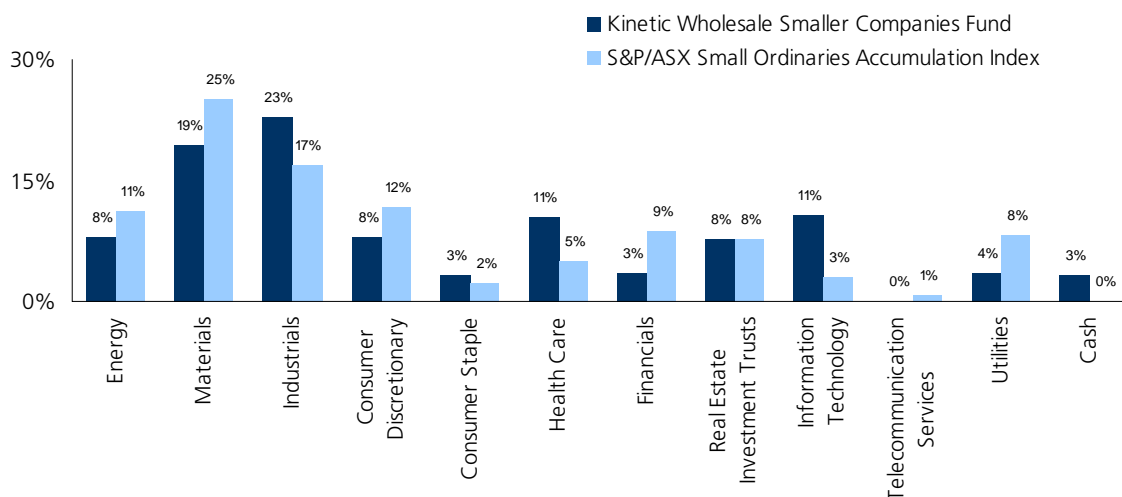
Fees

	Kinetic Smaller Wholesale Companies Fund
Entry fee	Closed
2007/08 ICR	0.87%
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 – 31 December 2007

Sector exposures as at 30 November 2007



Commentary

The small cap sector finished the quarter down 1.01% (as measured by the S&P/ASX Small Ordinaries Accumulation Index). Continued illiquidity in global credit markets coupled with fears of a US recession weighed on the domestic equity market. The Portfolio marginally underperformed its benchmark for the quarter however finished 2007 as a whole well ahead.

Key contributors to the sector returns were overweight positions in Incitec Pivot (up 39.77%) and Tassal Group (up 23.53%). An underweight position in Centro Retail Group (down 41.72%) also contributed to returns on a relative basis. Overweight positions in Boom Logistics (down 37.58%) and Credit Corp Group (down 56.65%) detracted from performance as did an underweight position in Riversdale Mining (up 101.81%).

Incitec Pivot outperformed the market on the back of rising fertilizer prices. The stock was also supported by positive market reaction to a strong profit result released during the period. Tasmanian Salmon farmer Tassal Group also outperformed as it benefits from strong growth in sales volume. The company has also reported a fall in costs providing further upside to earnings. Centro Retail Group along with its management company Centro Properties Group was sold off heavily in December after it announced it was experiencing significant difficulties re-financing its debt book.

Boom Logistics fell during the quarter after announcing a profit downgrade. Rail and port bottlenecks in Queensland are also negatively impacting on the stock. Riversdale Mining rallied strongly during the quarter after announcing it had signed a deal with Tata Steel to form a special purpose joint venture to develop Riversdale's coal project. Further acquisitions of tenements during the quarter supported the stocks rise. Credit Corp finished the quarter lower after announcing a profit warning. A long ramp up period in developing its work force has also put pressure on the stock.

Fund outlook

The continuation of instability in global credit markets and the growing threat of a US recession are likely to perpetuate volatility on the domestic equities market in the short term. A strong AUD continues to weigh on stocks with USD earnings despite the AUD/USD exchange rate weakening somewhat late in the quarter. Inflationary pressures still remain a concern given the RBA's tightening bias in relation to monetary policy. In addition to rising interest rates, tight liquidity conditions in credit markets continues to leave companies with highly geared balance sheets susceptible to surprise on the downside. Despite these concerns we still have a positive outlook on the domestic energy sector as oil and gas prices continue to strengthen. Oil hit historical highs during the quarter getting very close to US\$100 per barrel. We also continue to see value in consumer staples.

Any information contained in this publication is current as at 31/12/07 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.