

NovaPort Smaller Companies Fund

Fund report and commentary – 30 June 2011

The Fund changed investment manager on 11 January 2011 at which time NovaPort Capital commenced managing the Fund. The investment methodology remains unchanged.

Performance						
	1 month (%)	Quarter (%)	1 year (%)	3 years (%) p.a.	5 years (%) p.a.	Inception (%) p.a.
NovaPort Smaller Companies Fund	-3.29	-6.96	13.74	6.63	9.05	14.83
Growth return	-4.00	-7.64	11.47	4.20	-1.69	2.38
Distribution return	0.71	0.68	2.27	2.43	10.74	12.45
S&P/ASX Small Ordinaries Accumulation Index	-5.09	-9.31	16.41	-2.59	1.21	9.63
Active return	1.80	2.35	2.67	9.22	7.84	5.20
NovaPort Wholesale Smaller Companies Fund	-3.20	-6.72	14.95	7.75	10.19	16.53
Growth return	-3.69	-7.18	12.67	4.84	-0.16	4.00
Distribution return	0.48	0.47	2.27	2.91	10.35	12.53
S&P/ASX Small Ordinaries Accumulation Index	-5.09	-9.31	16.41	-2.59	1.21	10.58
Active return	1.89	2.59	-1.46	10.34	8.98	5.95
NovaPort Premier Smaller Companies Fund	-3.21	-6.72	14.94	7.76	10.20	18.93
Growth return	-4.27	-7.75	11.97	4.38	-2.68	3.42
Distribution return	1.07	1.03	2.98	3.38	12.88	15.51
S&P/ASX Small Ordinaries Accumulation Index	-5.09	-9.31	16.41	-2.59	1.21	7.04
Active return	1.88	2.59	-1.47	10.35	8.99	11.89

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 is designed to provide investors with a diversified portfolio of smaller Australian companies and aims to outperform the S&P/ASX Small Ordinaries Accumulation Index over rolling three-year periods.

Investment manager

NovaPort Capital Pty Limited

Investment strategy

NovaPort is a benchmark unaware, active investment manager. NovaPort's approach is focused on buying companies with an improving outlook at a significant discount to valuation. At the same time, they pay particular attention to the underlying quality of company earnings, management and industry structure in order to minimise downside risk.

Distribution frequency

Quarterly

Suggested minimum investment timeframe

At least five years

Asset allocation

	Current (%)	Range (%)
Securities	90	80-100
Cash	10	0-20

Top five active positions as at 31 May 2011

	Fund weight (%)	Index weight (%)	Active weight (%)
Austbrokers Holdings	3.64	0.00	3.64
Kathmandu Holdings	3.68	0.34	3.34
Cash Convertors International	3.33	0.17	3.16
Qube Logistics	3.13	0.00	3.13
Flexigroup	3.49	0.38	3.11

Fund facts

	NovaPort Smaller Companies Fund	NovaPort Wholesale Smaller Companies Fund	NovaPort Premier Smaller Companies Fund
Inception date	13/09/2002	31/12/2002	03/07/2000
Fund size (\$M)	20.3	42.6	184.1
APIR code	HOW0017AU	HOW0016AU	HOW0018AU

Fees

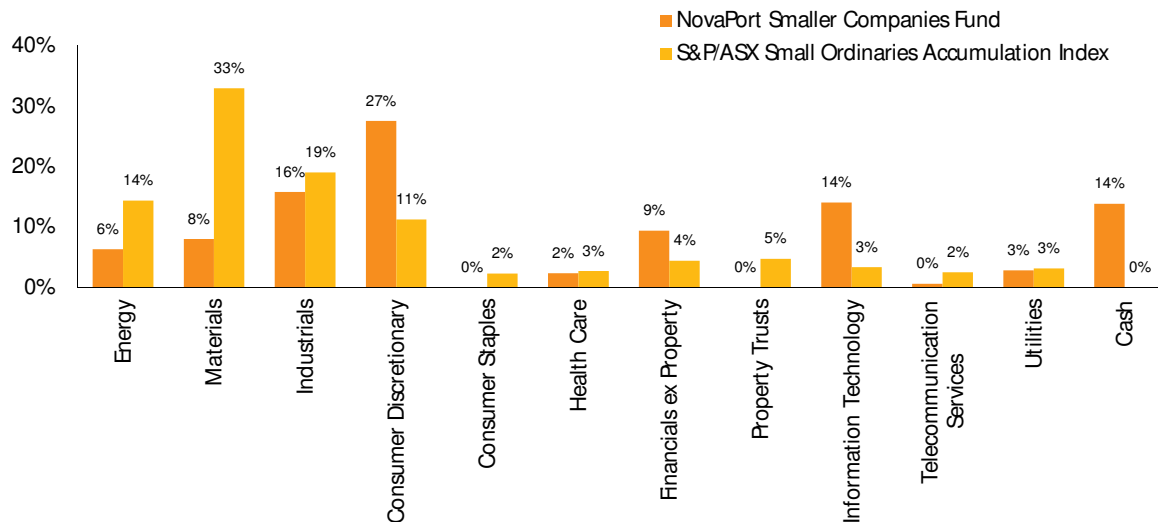
	NovaPort Smaller Companies Fund	NovaPort Wholesale Smaller Companies Fund	NovaPort Premier Smaller Companies Fund
Entry fee	Up to 4%	Nil	Nil
2009/10 ICR	2.00%	0.95%	0.95%
Management fee	2.00%p.a.	0.95%p.a.	0.95%p.a.
Performance fee	Nil	Nil	Nil
Buy/sell spread	+0.40%/-0.40%	+0.40%/-0.40%	+0.40%/-0.40%



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Sector exposure as at 31 May 2011



Commentary

The S&P/ASX Small Ordinaries Accumulation Index finished the June quarter in negative territory (down 9.31%) underperforming the broader equities market (S&P/ASX 300 Accumulation Index) by 5.05%. Small industrials (down 4.67%) outperformed small resources (down 15.61%) with the latter impacted by a combination of profit taking and emerging macro risks reducing risk appetite.

After April's bounce, global equity markets went into reverse as concerns about the momentum in the global economy weighed implicitly on earnings expectations and investor sentiment. Global markets were restrained over the quarter due to the lack of positive news about the US recovery, which saw the ISM manufacturing index gauge slump from 60.4 to 53.5 in May. The uncertainty surrounding the impact of withdrawing QE2 also added to equity market volatility. There was a glimmer of hope towards the latter part of the quarter on growing optimism that Greece would get the financial support needed to stave off a default. On the domestic front, the economy showed further signs of tiring in the aftermath of last year's monetary tightening and the flood impacts, which saw GDP fall 1.2% in Q1. Net exports were also particularly weak. The RBA left rates unchanged over the quarter and Overnight Indexed Swap (OIS) rates, which reflect cash rate expectations, shifted from pricing an RBA rate hike to pricing a risk of a rate cut. Job vacancies in Q2 fell by 3.6%, while housing credit growth fell to its slowest pace in its 35-year history.

Consumer confidence remained flat over the quarter while business confidence outside the mining sector remained at subdued levels.

The portfolio outperformed its benchmark over the quarter. Key contributors to returns were positions in Oaks Hotels and Resorts (up 43.06%), Flexigroup (up 6.70%) and Technology One (up 7.77%). Detracting from returns were positions in Saracen Mineral Holdings (down 27.21%), Transpacific Industries (down 27.23%), and Hastie Group (down 82.95%).

Key contributors

Oaks Hotels and Resorts: Not held (index return 44.44%)

Oaks Hotels and Resorts outperformed over the quarter after it became the target of a takeover bid by several companies. The company was subsequently taken over by Minor International after it acquired a 54.3% stake in the company. The securities of Oaks Hotels and Resorts were suspended from quotation on the ASX on 27 June 2011.

Flexigroup: up 6.56%

Flexigroup outperformed over the quarter after upgrading its 2011 financial year NPAT (Net Profit After Tax) guidance on the back of continued strong growth in volumes and net profits from its interest free and mobile broadband businesses.

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Technology One: up 7.77%

Technology One outperformed over the quarter after the company reported that net profit after tax had increased 33% to \$9.1 million from the prior corresponding period for the half year ending March 2011. The company continued to benefit from strong growth in its initial licence fees, annual licence fees, consulting services and Technology One Plus (the company's project services division).

Key detractors

Hastie Group: Not held (index return -72.24%)

Hastie Group's shares slumped after appointing UBS and Macquarie Capital to assist in a restructuring with its lender group, which agreed to a standstill agreement until 1st August. The company's share price also came under pressure after it downgraded its full-year 2011 operating earnings before interest and tax to \$50 million, as it delivered a first-half loss of \$94.3 million. NovaPort was initially overweight Hastie Group at the beginning of the quarter but has since exited the position.

Saracen Mineral Holdings: down 27.11%

Saracen Mineral Holdings underperformed over the quarter despite indicating that it expected to achieve its maiden full financial year production guidance of 110,000 to 120,000 ounces from the Carosue Dam operations. Damage to the primary crusher, and the requirement that further damage be minimised ahead of the scheduled remedial works, saw its June quarter production revised slightly lower from its previous guidance.

Transpacific Industries: down 27.23%

Transpacific Industries' stock was subject to selling pressure due to uncertainty about the impact of a weaker economic climate on its earnings as well as lingering concerns that the group would sell assets or raise equity in order to reduce debt. Subsequently the company released an update to the market forecasting earnings marginally lower than market expectations. Transpacific has no debt repayments due until September 2012.

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