

NovaPort Smaller Companies Fund

Fund report and commentary – 30 September 2011

Performance						
	1 month (%)	Quarter (%)	1 year (%)	3 years (%) p.a.	5 years (%) p.a.	Inception (%) p.a.
NovaPort Smaller Companies Fund	-3.03	-4.37	1.52	7.25	6.90	13.82
Growth return	-3.68	-5.01	-1.17	4.64	-3.72	1.73
Distribution return	0.64	0.63	2.68	2.60	10.62	12.09
S&P/ASX Small Ordinaries Accumulation Index	-10.61	-11.79	-12.11	-0.14	-2.27	7.85
Active Return	7.58	7.42	13.63	7.39	9.17	5.97
NovaPort Wholesale Smaller Companies Fund	-2.95	-4.13	2.58	8.38	8.02	15.46
Growth return	-3.02	-4.19	0.48	5.53	-2.07	3.37
Distribution return	0.06	0.06	2.09	2.85	10.09	12.08
S&P/ASX Small Ordinaries Accumulation Index	-10.61	-11.79	-12.11	-0.14	-2.27	8.69
Active Return	7.66	7.66	14.69	8.52	10.29	6.77
NovaPort Premier Smaller Companies Fund	-2.97	-4.13	2.58	8.38	8.03	18.02
Growth return	-4.04	-5.19	-1.19	4.75	-4.74	2.85
Distribution return	1.08	1.06	3.76	3.64	12.77	15.17
S&P/ASX Small Ordinaries Accumulation Index	-10.61	-11.79	-12.11	-0.14	-2.27	5.69
Active Return	7.64	7.66	14.69	8.52	10.30	12.33

The Fund changed investment manager on 11 January 2011 at which time NovaPort Capital commenced managing the Fund. The investment methodology remains unchanged. 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	89	80-100
Cash	11	0-20

Top five active positions as at 31 August 2011			
	Fund weight (%)	Index weight (%)	Active weight (%)
Austbrokers Holdings	3.85	0.00	3.85
Count Financial	3.51	0.00	3.51
Saracen Mineral Holdings	3.76	0.31	3.45
Flexigroup	3.83	0.41	3.42
Qube Logistics Holdings	3.36	0.00	3.36

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)	18.5	36.8	174.8
APIR code	HOW0017AU	HOW0016AU	HOW0018AU

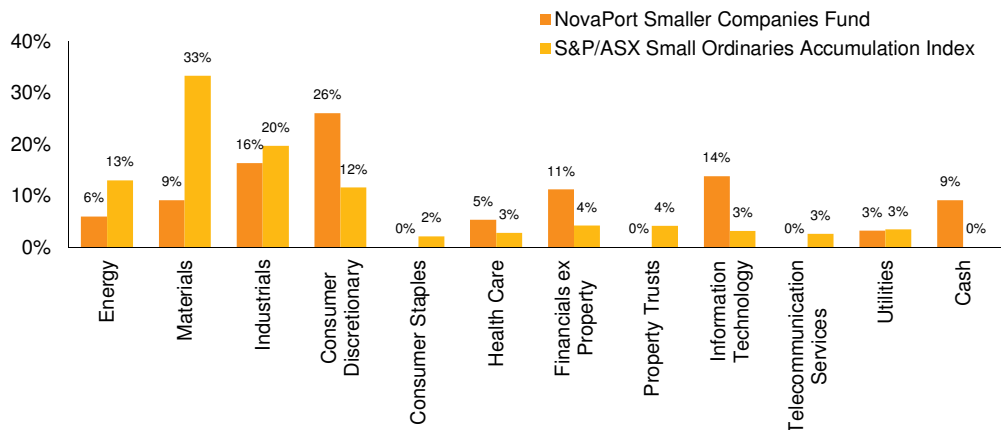
Fees			
	NovaPort Smaller Companies Fund	NovaPort Wholesale Smaller Companies Fund	NovaPort Premier Smaller Companies Fund
Entry fee	Up to 4%	Nil	Nil
2010/11 ICR	2.00%	0.95%	0.95%
Management fee	2.00%p.a.	0.95%p.a.	0.95%p.a.
Performance fee	Nil	Nil	Nil
Buy/sell spread	+0.40%/-0.40%	+0.40%/-0.40%	+0.40%/-0.40%



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Sector exposure as at 31 August 2011



Commentary

The Australian small caps market (S&P/ASX Small Ordinaries Accumulation Index) ended the September quarter down 11.79% underperforming the broader equities market by -0.14%. The small resources sector (-13.52%) underperformed the small industrials sector (-10.47%) reflecting continued risk aversion against a backdrop of ongoing disruptions in Europe and concerns of slower growth in China.

The portfolio outperformed its benchmark over the quarter. Contributing to returns were overweight positions in Count Financial, Saracen Mineral Holdings and Beach Energy. Detracting from returns were overweight positions in Cash Converters International, Southern Cross Media Group and Horizon Oil.

All major global indices fell over the quarter as the focus was once again on the sovereign debt problems in Europe, while disappointment with the US FOMC meeting in late September only added to the pessimistic outlook for the global economy. The European Central Bank was forced to issue a statement that it had coordinated efforts with other central banks to extend 3-month dollar loans to European banks on the back of rumours that French banks were having difficulty accessing USD funding. Growth in China's manufacturing softened from the rapid pace of 2010 (Sept. PMI 49.9), although growth has been solid despite survey indicators pointing to a slowdown in production. The rise in risk aversion saw the Australian dollar lose almost 9% in September, ending the quarter below parity at 0.9724 USD. Commodity prices also fell heavily in September, with copper and nickel down 20%, while oil and gold fell 10%. Locally, the RBA held the official cash rate unchanged over the quarter at 4.75%, citing weak activity outside of the resources sector. Q2 underlying inflation was revised down to 0.6% from 0.9% while the NAB Monthly Business Survey for August saw conditions and confidence ease further. This was exacerbated by further weakness in the housing sector, driven by weak credit growth. Retail sales rose by 0.6% in August, slightly above market expectations of a 0.2% rise.

Key contributors

Count Financial: up 42.30%

Count Financial outperformed after posting a preliminary record net profit after tax of \$52 million for FY11 which was up 118% on the previous corresponding period. Its shares also surged after Commonwealth Bank of Australia announced it had agreed to buy Count Financial for A\$1.40 per share, plus a 4 cent dividend, representing a 34% premium to the previous day's close.

Saracen Mineral Holdings: up 27.10%

Saracen Mineral Holding's share rose over the quarter as gold futures hit a record \$US1801 a troy ounce against a backdrop of rising US debt levels and sovereign concerns. Investors also greeted the news positively that Saracen had received highly encouraging assay results from a recently completed drilling program at Whirling Dervish, adjacent to its Carosue Dam operations, which suggest significant resource potential and a possible future underground mine development.

Beach Energy: up 20.40%

Beach Petroleum has enjoyed renewed investor interest on the back of continued exploration success. Early results have highlighted the substantial shale gas potential in Beach's Cooper Basin interests, which has resulted in the booking of in excess of 2 trillion cubic feet to its resource. We expect the emerging Liquefied Natural Gas (LNG) export infrastructure in Queensland will meaningfully transform the dynamics of the East Australian gas market - and Beach is well positioned to benefit from this.

Key detractors

Cash Converters International: down 36.21%

Cash Converters underperformed after the Federal Government released a series of draft reforms, which would seek to cap fees and charges for consumer loans. Shares in the company also fell after the company announced US-based EZCORP Inc had terminated its proposal to acquire an additional stake in the second-hand goods and financial services franchise.

Southern Cross Media Group: down 36.13%

Southern Cross Media Group underperformed against a backdrop of challenging markets, which has seen investors shy away from FTA media players due to perceived structural problems as well as continued weakness in advertising markets. Despite the current uncertain trading conditions, NovaPort expect SXL to deliver positive underlying profit growth as it works through the merger of Austereo and markets show some improvement over 2012.

Horizon Oil: down 44.72%

Horizon Oil underperformed over the quarter after its earnings (NPAT US\$16.3m) came in slightly below forecasts due to negative product inventory movements and higher interest charges.

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