

## Fund Manager



**Cynthia Jenkins**  
Head of Australian Smaller Companies

## Fund ratings

STANDARD  
& POOR'S



LONSEC



## Performance analysis (periods to 31 July 2010)

### Net performance

| Periods                | Fund % | Benchmark % | Value added % |
|------------------------|--------|-------------|---------------|
| 1 month                | 3.67   | 5.21        | -1.54         |
| 3 months               | -8.13  | -7.00       | -1.13         |
| 6 months               | -1.28  | -1.09       | -0.19         |
| 1 year                 | 18.59  | 7.30        | 11.29         |
| 2 years p.a.           | -4.24  | -5.98       | 1.74          |
| 3 years p.a.           | -9.37  | -12.43      | 3.06          |
| 5 years p.a.           | 4.84   | 3.02        | 1.82          |
| 10 years p.a.          | 11.41  | 6.35        | 5.06          |
| Calendar year to date  | -6.24  | -8.44       | 2.20          |
| Financial year to date | 3.67   | 5.21        | -1.54         |
| Since inception p.a.   | 12.77  | 6.24        | 6.53          |

The Fund returns are shown after ongoing fees and assumes reinvestment of income. Past returns are not a reliable indicator of future returns. Future returns may be affected by a range of factors including economic and market influences.

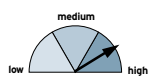
### Net distribution growth splits

| Periods       | Distribution % | Growth % | Total % |
|---------------|----------------|----------|---------|
| 3 months      | 1.11           | -9.24    | -8.13   |
| 6 months      | 1.20           | -2.48    | -1.28   |
| 1 year        | 2.42           | 16.17    | 18.59   |
| 2 years p.a.  | 3.66           | -7.90    | -4.24   |
| 3 years p.a.  | 5.77           | -15.14   | -9.37   |
| 5 years p.a.  | 10.27          | -5.43    | 4.84    |
| 10 years p.a. | 11.87          | -0.46    | 11.41   |

### Net risk profile

| Periods              | Tracking error % | Information Ratio |
|----------------------|------------------|-------------------|
| 1 year               | 7.73             | 1.46              |
| 2 years p.a.         | 10.47            | 0.17              |
| 3 years p.a.         | 9.16             | 0.33              |
| 5 years p.a.         | 7.59             | 0.24              |
| 10 years p.a.        | 6.48             | 0.78              |
| Since inception p.a. | 6.83             | 0.96              |

### Fund facts at a glance

|                               |   |
|-------------------------------|---|
| <b>Asset class</b>            | Australian smaller companies  |
| <b>Management style</b>       | Fundamental, active, core   |
| <b>Objective</b>              | To provide long-term capital growth and distributions by investing in smaller companies listed on the Australian sharemarket, predominantly outside the S&P/ASX 100 Index*  |
| <b>Benchmark</b>              | From inception to 31/12/88 = ASX all Ordinaries ex 50 Leaders, 01/01/89 - 21/12/90 = ASX All Ordinaries ex 100 Leaders, 01/01/91 - 31/03/00 = ASX Small Ordinaries Index, from 01/04/00 = S&P/ASX Small Ordinaries Accumulation Index |
| <b>Risk profile</b>           |    |
| <b>Time horizon</b>           | 7 years   |
| <b>Distribution frequency</b> | Half-yearly   |
| <b>Inception date</b>         | 31/3/88   |
| <b>Minimum investment</b>     | \$20,000  |
| <b>MER/ICU</b>                | 1.25%   |
| <b>APIR code</b>              | CNA0812AU   |

\*Invesco does not guarantee that the Fund will achieve its objective.

### Sector attribution

| Sector                         | 3 Months % | 1 year % | 3 years % |
|--------------------------------|------------|----------|-----------|
| Consumer Discretionary         | -0.01      | 3.39     | 5.00      |
| Consumer Staples               | 0.12       | 1.66     | 3.57      |
| Energy                         | 0.19       | 1.78     | -5.81     |
| Financials Ex Lpt              | -0.66      | -0.40    | 2.21      |
| Health Care                    | 1.72       | 2.88     | 2.59      |
| Industrials                    | -1.57      | -0.24    | -3.64     |
| Information Technology         | 0.05       | 1.60     | 1.09      |
| Listed Property Trusts         | 0.08       | -0.51    | 4.67      |
| Materials Ex Metals and Mining | 1.39       | 0.39     | 3.63      |
| Metals and Mining              | -1.74      | -0.61    | -6.73     |
| Telecommunication Services     | -0.47      | 1.30     | -0.60     |
| Utilities                      | 0.16       | 1.14     | 0.70      |
| [Cash]                         | -0.05      | -0.39    | 2.71      |
| Residual                       | -0.04      | 0.77     | 0.78      |
| Total                          | -0.83      | 12.76    | 10.17     |

Attribution is calculated on cumulative gross performance data.

### Fund analysis (as at 31 July 2010)

#### Market capitalisation allocation

| Ranges  | Fund % | Benchmark % | Active weight % |
|---------|--------|-------------|-----------------|
| 1-20    | 0.00   | 0.00        | 0.00            |
| 21-50   | 0.00   | 0.00        | 0.00            |
| 51-100  | 0.40   | 0.00        | 0.40            |
| 101-200 | 56.23  | 75.09       | -18.86          |
| 201-300 | 19.60  | 24.91       | -5.31           |
| 301-500 | 19.79  | 0.00        | 19.79           |
| 500+    | 3.60   | 0.00        | 3.60            |
| Cash    | 0.38   | 0.00        | 0.38            |

#### Sector allocation

| Sector                         | Fund % | Benchmark % | Active weight % |
|--------------------------------|--------|-------------|-----------------|
| Consumer Discretionary         | 20.58  | 11.79       | 8.79            |
| Consumer Staples               | 0.00   | 2.91        | -2.91           |
| Energy                         | 2.37   | 10.96       | -8.59           |
| Financials Ex Lpt              | 9.33   | 6.14        | 3.19            |
| Health Care                    | 10.86  | 7.60        | 3.26            |
| Industrials                    | 25.06  | 15.80       | 9.26            |
| Information Technology         | 5.23   | 3.33        | 1.90            |
| Listed Property Trusts         | 0.00   | 5.46        | -5.46           |
| Materials Ex Metals and Mining | 7.70   | 3.61        | 4.10            |
| Metals and Mining              | 15.66  | 26.21       | -10.55          |
| Telecommunication Services     | 2.84   | 1.76        | 1.07            |
| Utilities                      | 0.00   | 4.43        | -4.43           |
| [Cash]                         | 0.38   | 0.00        | 0.38            |

#### Five largest overweight positions

| Security                      | Fund % | Benchmark % | Active weight % |
|-------------------------------|--------|-------------|-----------------|
| Healthscope Ltd.              | 6.03   | 2.01        | 4.02            |
| Adelaide Brighton Ltd.        | 5.00   | 1.64        | 3.37            |
| Ramsay Health Care Ltd.       | 4.69   | 1.77        | 2.91            |
| ARB Corp. Ltd.                | 2.64   | 0.00        | 2.64            |
| Mermaid Marine Australia Ltd. | 3.14   | 0.50        | 2.64            |

#### Five largest underweight positions

| Security                     | Fund % | Benchmark % | Active weight % |
|------------------------------|--------|-------------|-----------------|
| ResMed Inc. (CDI-10CDI/1SHS) | 0.00   | 2.03        | -2.03           |
| Ten Network Holdings Ltd.    | 0.00   | 1.64        | -1.64           |
| Riversdale Mining Ltd.       | 0.00   | 1.58        | -1.58           |
| PanAust Ltd                  | 0.00   | 1.43        | -1.43           |
| Lynas Corp. Ltd.             | 0.00   | 1.31        | -1.31           |

#### 10 largest holdings

| Security                       | Fund % | Benchmark % | Active weight % |
|--------------------------------|--------|-------------|-----------------|
| Healthscope Ltd.               | 6.03   | 2.01        | 4.02            |
| Adelaide Brighton Ltd.         | 5.00   | 1.64        | 3.37            |
| Ramsay Health Care Ltd.        | 4.69   | 1.77        | 2.91            |
| Mermaid Marine Australia Ltd.  | 3.14   | 0.50        | 2.64            |
| Bradken Ltd.                   | 3.12   | 1.10        | 2.02            |
| SMS Management and Technology  | 3.01   | 0.42        | 2.59            |
| TPG Telecom Ltd.               | 2.84   | 0.54        | 2.30            |
| Australian Infrastructure Fund | 2.76   | 1.18        | 1.58            |
| ARB Corp. Ltd.                 | 2.64   | 0.00        | 2.64            |
| Ausdrill Ltd.                  | 2.59   | 0.35        | 2.24            |

*Note: Security selection will change. You should not rely on this statement in making an investment decision about any security, but should make your own independent enquiries.*

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## Monthly commentary

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### Market review

The small cap sector, represented by the S&P/ASX Small Ordinaries Accumulation Index, rose 5.21% in July, outperforming the broad equity market which gained around 4.5% for the month. Trading conditions were softer and corporate news was subdued in the lead up to the August earnings reporting season. However, small cap investors turned more risk tolerant in July as most European banks passed their capital stress tests, which helped ease pressure in funding markets, and as commodity markets firmed. Domestically, investors were further encouraged as the federal government shifted its stance on the proposed resources rent tax and as economic news remained upbeat. Over the month the small Resources sector (5.8%) outperformed the small Industrials sector (4.9%).

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### Contributors to performance

The portfolio underperformed its benchmark in July.

#### Added value:

One of our larger overweight and longstanding positions, Adelaide Brighton, rallied 18% on a near 50% upgrade in its June half-year guidance on higher cement/lime prices, lower debt levels and a stronger Australian dollar. With its operation performing so well and debt levels low, a stronger dividend payout ratio could be justified.

Takeover activity involving positions in the portfolio also helped relative performance. The Healthscope board recommended the private equity bid and the shares rallied 15%, while Mitchell Communications was bid for by AEGIS. We anticipate that both of these bids will be successful.

#### Detracted value:

Programmed Maintenance (-22%) announced a profit warning, citing companies reducing their maintenance and discretionary spending. Our nil holding in Lynas Corp., a rare earth deposits explorer, also detracted over the month.

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### Activity

There was no notable stock activity in the portfolio during the month.

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### Market outlook and portfolio strategy

We continue to believe the market is currently unwilling to fully price in analysts' earnings growth estimates for 2011. We therefore believe the market offers good value which we expect to be realised as confidence returns on growing evidence of economic recovery.

June 2010 was characterised by continued concerns over European debt levels (even including a brief panic regarding an Hungarian debt crisis), slowing growth in China and deteriorating US lead indicators. However it appears that this negative environment is being increasingly incorporated in the market. This creates opportunity and June witnessed the several acquisitions proceed after a period of due diligence (GUD acquired Dexion and Valspar of the US made a formal bid for Watty).

We continue to believe Australian small caps offer sound growth potential through focussed exposure to the domestic economy. This is based on the fact that (1) Australia is experiencing much stronger population growth and therefore stronger labour force growth (2) Australian households debt ratios are better than global peers (3) Australian corporate balance sheets now largely repaired through equity raisings (4) Public sector debt is very low compared to most other OECD countries.

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