

# Cygnnet Microcap Opportunity Fund

## INVESTOR REPORT

29 February 2008

Investment Manager: Cygnnet Funds Management ABN 23 106 177 093 AFSL 306803

### OBJECTIVE

The Cygnnet Microcap Opportunity Fund targets high capital growth over the medium to long-term (minimum 3 years) through exposure to the microcap sector of the Australian securities market, specifically ASX-listed and soon to list companies valued under \$200 million.

### PERFORMANCE

|   | Nov    | Dec    | Jan     | Feb    | Mar | Apr | May | Jun | 3 Month |
|---|--------|--------|---------|--------|-----|-----|-----|-----|---------|
| Cygnnet Microcap Opportunity Fund*      | 2.43%  | 1.31%  | -10.37% | -1.47% | -   | -   | -   | -   | -10.53% |
| ASX Small Ordinaries Accumulation Index | -3.77% | -2.37% | -14.37% | 3.8%   | -   | -   | -   | -   | -13.22% |

\*Performance has been calculated before fees and charges.

### UNIT PRICE (as at 29 February 2008)

|                                  |           |                    |          |
|----------------------------------|-----------|--------------------|----------|
| Net Portfolio Valuation per unit | 0.9057    | Minimum Investment | \$50,000 |
| Bid Price                        | 0.9093    | Minimum Withdrawal | \$5,000  |
| Redemption Price                 | 0.9021    |                    |          |
|                                  |           | Management Fee     | 1.85%    |
| Fund Size (units)                | 4,565,165 | Performance Fee    | 12.5%    |
| Number of Holdings               | 16        | High Water Mark    | Yes      |

\*Unit Prices are calculated before performance and management fees have been deducted.

### MARKET REVIEW & OUTLOOK

The markets have continued to be volatile during the month of February. It has been a busy month with most companies reporting their half or full year results. Reporting season is an important time for the market to learn about the financial health of the companies and their profitability which is a prime driver of investment market returns. Overall, the reporting season has been quite balanced with some very strong results reported particularly within the industrial sector, while profit growth slowed in the resource and financial sectors. Two major themes arose in the reporting season. The rise in the Australian Dollar (weakening \$US) impacting any revenues denominated in foreign currencies and ongoing credit market issues impacting funding costs.

The Resources sector has continued to exhibit strong profitability. Some companies have lost some profit growth momentum due to rising costs and exchange rate losses and increased costs of capital projects. Market commentators are still expecting strong demand for commodities particularly from China and India moving forward and this should continue to support the strong commodity prices. A weaker US\$ has resulted in commodities being cheaper for buyers in other countries using stronger domestic currencies. We continue to be very positive about the resource and energy sectors with particular emphasis on iron ore, coal, oil and gas and uranium stocks.

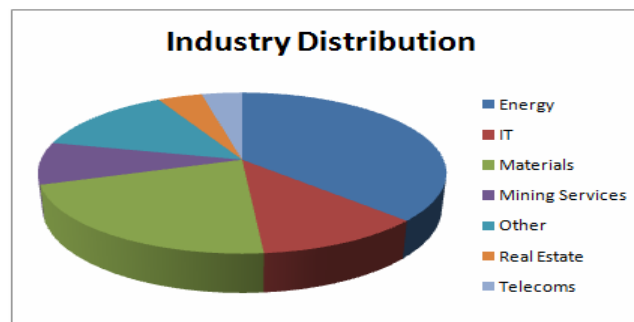
Industrial companies performed strongly with robust sales, strong operational performance and largely contained costs. Some were also impacted by the devaluing US Dollar. Higher input costs and interest expenses are likely to have impact on margins moving forward, but the economy remains strong and the companies will have opportunity to pass on some of these increased costs to the consumer. We continue to prefer companies servicing the booming mining industry.

Earnings for the financial sector have come under pressure. Increasing interest rates, higher cost of credit funding, lower insurance margins and importantly lower market returns have had an impact on the sector. While the sector has fallen over the past few months and general pessimism prevails, we are of the opinion that some stocks appear to be fundamentally undervalued at current levels and we have been identifying potential investment candidates.

Looking ahead, the domestic economy is still performing strongly and it appears that we are at the end of the interest rate hiking cycle. We expect economic activity to slow slightly from above average rates. Input costs such as oil and loan interest expenses are increasing, corporate balance sheets appear robust and corporate earnings should remain positive particularly in the resource and energy sectors. There is a risk that a prolonged slow down in the US will negatively impact our economy but currently it does appear that the Chinese/Indian economies have somewhat “decoupled” from the US and are experiencing strong conditions which is in turn driving demand for our raw materials.

## MARKET SECTOR EXPOSURE

|              |             |
|--------------|-------------|
| Energy       | 37%         |
| Materials    | 22%         |
| Other        | 14%         |
| IT           | 11%         |
| Industrials  | 8%          |
| Telecoms     | 4%          |
| Real Estate  | 4%          |
| Cash         | 0%          |
| <b>TOTAL</b> | <b>100%</b> |



## CONTACT



For information on the Cygnet Microcap Opportunity Fund or information on your account please contact:

**Cameron Morcher - Portfolio Manager**

Tel: (03) 9669 1956

Email: [cm@cygnetcapital.com.au](mailto:cm@cygnetcapital.com.au)

[www.cygnetcapital.com.au/managed.php](http://www.cygnetcapital.com.au/managed.php)

## IMPORTANT INFORMATION

Disclaimer: This report was prepared by Cygnet Funds Management AFSL 306803. This is general advice only and has been prepared without taking into account your particular objectives, financial circumstances and needs. Before making any decision based on this report, you should assess your own circumstances or consult a financial planner. You should obtain and consider a copy of the information memorandum relating to the Cygnet Microcap Opportunities Fund before acquiring the financial product. To the extent permitted by law, Fundhost Limited ABN 69 092 517 087 (the Trustee of the Fund) nor Cygnet Funds Management, its employees, consultants, advisers, officers and authorized representatives are not liable for any loss or damage arising as a result of reliance placed on the contents of this report.