



Souls Australian Small Companies Fund

Monthly update 31 October 2008

Fund Performance

The S&P/ASX Small Ordinaries Accumulation Index fell 24.8% during October 2008. The month was one that was characterised by the jettisoning of consideration of investment fundamentals in favour of a rush to liquidity, in tandem with the avoidance of all facets of risk. Over October the Fund outperformed its benchmark by 8.5%. All other global markets were weaker, with the US S&P Index down 16.8%, while NASDAQ was down 17.4%. The UK FTSE lost a relatively modest 10.7%, and the Nikkei was down 23.8%.

For the year the Fund has declined by 43.3% which compares to a 53.3% decline for the S&P/ASX Small Ordinaries Accumulation Index. Since inception in May 1998 the Fund's return is a 17.1%pa gain versus a 4.5%pa gain for the Index.

SDI rose 21.1% from recent lows, and announced a major international contract win during the month. **MYOB** was up 10.8% following re-confirmation of earlier full year earnings guidance and received a takeover offer at the end of the month. **ABB Grain** (+4.3%) increased its full year profit guidance by over 35% on the back of stronger performance across most of its operating divisions. **Salmat** (+1.0%) rose as the defensive traits company attracted some investor support.

NIB Holdings (+0.0%), despite intra-month volatility, ended the month level after revising policy holder growth expectation from 3.5% to 4.0% and rejecting a takeover offer believed to have been over \$1.10, against a price of \$0.84 at month end.

STW Communications fell 50.7% as the outlook for the advertising sector looks increasingly uncertain. **NoniB** (-36.8%) issued another profit warning due to continued weakening in the women's fashion market. **Lycopodium** (-33.3%), **Monadelphous Group** (-33.3%), **Mac Services Group** (-30.9%), **Coffey International** (-27.1%) and other contractors and service providers to the resources sector were marked down as the market factored in lower activity levels for the sector following recent boom times.

Portfolio activity

A new position in the **Thomas & Coffey** was established, while **Mac Services Group** and **Skilled Engineering** were added to. Holdings in **Primary Healthcare**, **GWA International**, **ASG Group**, **Resmed**, **Campbell Brothers**, **AWB**, **Calliden**, and **SMS Management & Technology** were trimmed. Cash amounted to 1.8% at month end.

Market Comments

Despite co-ordinated moves by global central banks debt and equity markets remained skittish, prone to bouts of volatility. With banking systems around the world having been propped up by governments or nationalised, focus is now shifting to the economic outworking of the credit crunch. Prospects of a global recession are increasing and employment growth in Australia is slowing. Lower interest rates and commodity price weakness put further pressure on the AUD\$ which dropped 16% against the USD\$ over the month.

Performance Statistics (Net of fees)

	Souls Australian Small Co. Fund	ASX Small Ord Acc Index	Difference
1 month %	-16.3	-24.8	8.5
3 month %	-12.2	-34.9	22.7
1 year %	-43.3	-53.3	10.0
2 years % pa	-11.9	-20.6	8.7
3 years % pa	0.0	-6.5	6.5
4 years % pa	0.5	-1.1	1.6
5 years % pa	7.7	3.6	4.1

Past performance is not necessarily indicative of future returns.

Portfolio Structure (Top 10 holdings)

Stock	% of Fund
1 ARB CORPORATION	7.1
2 REECE	6.6
3 GWA INTERNATIONAL	5.6
4 SALMAT	5.3
5 SKILLED GROUP	4.5
6 DATA #3	4.4
7 CAMPBELL BROTHERS	4.1
8 AWB	4.1
9 ASG GROUP	4.1
10 AUSTBROKERS HOLDINGS	4.1
OTHER STOCKS	48.3
CASH	1.8
TOTAL	100

Distribution History

Total distribution for the year ended	Cents Per Unit	Annual Yield %*
June 06	18.88	7.3
June 07	34.32	12.2
June 08	38.82	9.8

*CPU/unit price at beginning of period.

Fund at a Glance

Souls Australian Small Companies Fund

- **Primary Investments** Shares in listed Australian smaller companies
- **Investment objective** Small Ordinaries Acc Index + 5% p.a. over rolling 3 years
- **Investor time horizon** Minimum 4 years

Fund information

Unit price (redemption) as at 31.10.08	\$2.0449
Unit price (application) as at 31.10.08	\$2.0614
Minimum investment	\$25,000
Minimum additional investment	\$1,000
Minimum balance	\$15,000
Minimum investment: monthly investment plan	\$500
Redemption will generally be available in	7 days
Distributions	30 June and 31 December
Entry fee*	0%
Exit fee*	0%
Buy/Sell differential*	0.40%
Management fee*	0.70% p.a.
Performance fee**	20% of return above benchmark
OGFM***	0.70% p.a.

* These fees and charges apply for the duration of the Product Disclosure Statement (PDS) and are inclusive of the Goods and Services Tax.

** A fee charged on performance of the investments of the Fund above the nominated benchmark performance. The benchmark is the S&P/ASX Small Ordinaries Accumulation Index.

*** The Ongoing Fee Measure (OGFM) is the total amount of the ongoing Manager and Custodian Fees and aggregate Fund expenses in a Financial Year (but excluding the performance fee), divided by the average Net Asset Value of the Fund for the Financial Year expressed as a percentage. Transactional costs, such as bank charges, brokerage and stamp duties are not included in the ratio. The OGFM for the Fund will not exceed 0.70% p.a. for the duration of the PDS.

This report is intended to provide only general securities advice. Souls Funds Management Limited does not purport to make any recommendation that any securities transaction is appropriate to your particular investment objectives, financial situation or particular needs. Prior to making any investment decision, you should assess, or seek advice from your adviser, on whether any relevant part of this report is appropriate to your individual circumstances. Souls Funds Management Limited believes that the information contained in this report has been obtained from sources that are accurate, but it has not checked or verified that information. Except to the extent that liability cannot be excluded, Souls Funds Management Limited accepts no liability for any losses or damage caused by any error in or omission from this report



Souls Funds Management Limited

Level 14, 15 Castlereagh Street, Sydney NSW 2000. GPO Box 4266, Sydney NSW 2001

T 02 9216 1800 F 02 9216 1899 E contact@soulsfm.com.au

www.soulsfm.com.au

ABN 78 098 628 605