

NAOS SMALL COMPANIES FUND



JULY 2010

Fund Objective

Investment objective for the Naos Small Companies Fund is to outperform the ASX Small Ordinaries over a rolling three year period in any market environment.

Market Overview

Australian equity markets experienced solid gains with both the All Ordinaries and the Small Ordinaries Index having their best month in 2010.

A strengthening Aussie dollar, positive economic news out of US and Europe and improvements in the Chinese economy all helped markets rebound from the May/June correction.

Investors seem to have rediscovered their appetite for equities with markets gaining momentum and trading values improving. The All Ordinaries Index gained 5.74% and the Small Ordinaries Index closed more than 6% above its June 30 close.

In the US, 64% of companies had profit results above consensus forecasts, while 18% were in line. A 23% month-on-month surge in US new home sales was positive with economists reporting fears of a 'double dip' recession have eased.

Europe was buoyed by results that only 7 out of 91 banks stress tests failed, with most passing with ease. Confidence seems to be returning to the European banks.

As was anticipated, the Reserve Bank of Australia held its cash rate at 4.50 in its August meeting. The RBA is content with current cash rate levels following lower than expected Q2 CPI data and the slowdown in underlying inflation. The RBA reported inflation back in its target range of 2-3%.

The AUD/USD appreciated to over 90c for the first time in over 2 months. The AUD also rallied against the Euro to end the month just under 0.70. Stronger Chinese demand for commodities, particularly steel as well as capital flight from the 'safe haven' US dollar was responsible for the strengthening Aussie dollar.

Investment Performance Net of Fees

	Three Months	One Year	Three Years	Five Years	Since Inception
Naos Small Companies Fund	-1.04%	57.20%	2.50%pa	15.36%pa	13.95%pa
UBS Bank Bill Index	1.18%	4.04%	5.52%pa	5.76%pa	5.76%pa
ASX Small Ordinaries	-7.00%	7.30%	-12.42%pa	3.02%pa	3.92%pa
Value Added (NSCF vs. ASX Small Ords)	5.96%	49.9%	14.92%pa	12.34%pa	10.03%pa

Top 5 Holdings in July 2010

NANOSONICS (NAN)
CBD ENERGY (CBD)
ACRUX LIMITED (ACR)
IMPEDIMED LIMITED (IPD)
ICASH PAYMENT SYSTEMS(ICP)

Fund Performance

The Fund performed well in July with a 1 month performance of 13.19%, while the Small Ordinaries Index returned 5.21% and the benchmark UBS Bank Bill returned 0.41%. The Fund has returned 57.20% over 12 months and 15.36%pa over 5 years compared with the Small Ordinaries Index 5 year return of 3.02%pa. This demonstrates the Fund's ability to outperform benchmarks in all environments over the medium-longer term. The Fund's make-up remained stable during July with two notable inclusions. We believe the value of Macquarie Telecom Group (MAQ), a business market focused telecommunications operator, has been artificially depressed due to low liquidity and should be able to capitalize on this as the business to business environment strengthens. Vision Group Holdings (VGH), Australia's largest provider of ophthalmic care along the eastern seaboard, was also added to the fund. We believe at current prices this stock offers significant upside potential. With reporting season under way the importance of stock selection is exemplified, with markets critical of underperforming results. Most of the Small Companies Fund's stocks will be providing results or guidance in August and we believe our investments will have improving earnings and profit figures, and will generate strong shareholder returns over the longer term.

- Sebastian Evans, Fund Manager

Further Information

Thank you for your support. Please contact a member of the NAOS team if you have any questions. www.naos.com.au