

# Pengana Emerging Companies Fund



## Fact Sheet – March 2008

### Overview

Pengana seeks to combine the skills of highly experienced small company investors with a limited fund size to provide above market returns over the medium term. Our benchmark is the S&P/ASX Small Ordinaries Accumulation Index. The fund managers are part owners of the business and investors in the fund, providing a strong incentive to perform.

The fund has strong research recommendations, with an “A” rating from **Van Eyk**, a “**Highly Recommended**” rating from **Lonsec**, a **4 Star** fund rating from **Standard & Poor’s**, and a “**Recommended**” rating from **Morningstar**. The fund is also well rated by **Mercer**. The fund was placed on a ‘soft close’ late last year, in order to protect the interests of existing investors, by limiting the size of the fund. Under the ‘soft close’ only current investors are able to add to their holdings. The fund now has around \$350m invested. Please contact us directly (see page 2) if you have any questions in relation to the ‘soft close’, access to the fund or capacity.

### Award Winning Investment Team

A specialist small companies team manages the Fund. Steve Black and Ed Prendergast each have over 12 years of experience researching small companies.

**Steve Black** managed the award winning JBWere Emerging Leaders Fund for almost 7 years, a period over which the fund delivered an average return of 19% pa (around 10% pa above the fund’s benchmark). The fund was voted the number one small companies fund in Australia in 2000 and 2001 by Personal Investor magazine before being closed to new investment in Nov 2001. Steve was a partner of Goldman Sachs JBWere before resigning to establish the Pengana Emerging Companies fund in Oct 2004.

**Ed Prendergast** has over 10 years experience in researching small companies with major stockbroking firms. From 1997 to 2004 he was an analyst at Citigroup and ABN Amro before leaving to establish the Pengana Emerging Companies Fund. Ed was ranked the number one small companies broking analyst in Australia in both 2003 and 2004 by BRW magazine.

### Investment Philosophy

Pengana is an active stock picker with an underlying belief that smaller companies’ share prices are often incorrectly priced due to a lack of broker coverage. Pengana has limited the funds under management to circa \$500m<sup>1</sup> in order to capitalise on this inefficiency, which is often greatest in less liquid stocks. The Fund has been placed on a ‘soft close’ to new investors. This means that existing unitholders may continue to add to their investments, but that new investors will not be accepted into the Fund.

Our fee structure is heavily geared to performance which aligns the interests of investors with fund managers. We have chosen a lower Ongoing Fee Measure (previously known as the MER) for the fund and added a performance based fee<sup>2</sup>. With this structure in place the principal motivation for a fund manager is to deliver strong performance above its benchmark. Once the fund is closed to new investments, this fee structure (and limited fund size) ensures the fund manager remains primarily incentivised on superior performance.

### Stock Selection Process

Pengana’s investment process is centred around a very active company visitation program in the belief that management is the most important factor in assessing investments in the sector. Over time we expect to visit most of the 800 companies in our universe. Qualitative based analysis focuses on management, product/service quality, competitive advantage, growth prospects and financial position. Favoured stocks are then fully modeled providing the inputs for a standardised cashflow based valuation. We then cross check this valuation with other investment tools such as PE and EV/EBITA ratios and dividend yields.

As we will only invest in companies we can value with relative confidence we will not own resource companies or loss making biotech stocks.

We seek to lessen portfolio risk by holding around 50 to 60 stocks and having a maximum weight in any one stock of 7% above index weight. We will seek to hold a minimal cash holding in the fund at all times.

#### Notes

1. The fund will raise no more than 0.5% of the S&P/ASX Small Ordinaries Accumulation Index.
2. The performance fee is 20.5% of the performance above the S&P/ASX Small Ordinaries Accumulation Index, after the deduction of the ongoing management costs of 1.3325%.

# Pengana Emerging Companies Fund

## Fund Overview

<b>Fund Investments</b>	Securities listed on the ASX (outside the S&P/ASX 50 Leaders Index) and New Zealand
<b>Fund Benchmark</b>	S&P/ASX Small Ordinaries Accumulation Index
<b>Income Distribution</b>	Half yearly (end June and December)
<b>Entry/exit Fee</b>	Nil
<b>Ongoing Fee Measure (OGFM)</b>	1.3325% <sup>1</sup>
<b>Performance Fee</b>	20.5% of the performance above the S&P/ASX Small Ordinaries Accumulation Index <sup>2</sup>
<b>Launch Date</b>	1 November 2004
<b>Fund Raising</b>	Maximum of 0.5% of the S&P/ASX Small Ordinaries Index capitalisation.
<b>Website</b>	<a href="http://www.pengana.com.au">www.pengana.com.au</a>
<b>Contact Details</b>	<b>Australia:</b> Justin Brooks (Aust National Distribution Manager) on +61 (0) 3 8663 7906 or Steve Black and Ed Prendergast (Fund Managers) on <a href="mailto:info@pengana.com.au">info@pengana.com.au</a> <b>New Zealand:</b> Martin Allison (New Zealand Distribution Manager) on +64 (9) 919 7407 or on <a href="mailto:Martin.Allison@abnamrocraigs.com">Martin.Allison@abnamrocraigs.com</a>

1. The OGFM is capped at 1.3325% (including GST less applicable reduced input tax credits) of average annual Net Asset Value of the Fund for the life of the Product Disclosure Statement. This capped amount does not incorporate an allowance for a performance fee of which may be payable in excess of the capped amount. Please refer to the PDS for a more detailed explanation.
2. The performance fee is 20.5% of the performance above the S&P/ASX Small Ordinaries Accumulation Index, after the deduction of the ongoing management costs of 1.3325%.

## Performance

### Total return performance for periods ending 31 March, 2008

	3 mths	1 yr	2 yrs p/a	3 yrs p/a	Since inception p/a*
<b>Pengana Emerging Companies Fund</b>	-27.5%	-13.9%	15.4%	21.1%	22.7%
<b>S&amp;P/ASX Small Industrials Acc Index**</b>	-21.2%	-20.3%	-0.6%	7.6%	7.8%
<b>Outperformance</b>	<b>-6.3%</b>	<b>6.5%</b>	<b>15.9%</b>	<b>13.5%</b>	<b>14.8%</b>
<b>S&amp;P/ASX Small Ordinaries Acc Index</b>	-15.3%	-7.6%	8.6%	15.7%	15.3%
<b>Outperformance</b>	<b>-12.2%</b>	<b>-6.2%</b>	<b>6.7%</b>	<b>5.4%</b>	<b>7.3%</b>

\* Since Nov 1, 2004

\*\* The fund does not invest in resource stocks

Total return performance figures are derived from Manager's records and are shown after both management fees and performance fees, and assumes reinvestment of income.

**Pengana Capital Ltd** (ABN 30 103 800 568, Australian financial services licence number 226566) is the issuer of units in the Pengana Emerging Companies Fund (the "Fund"). A product disclosure statement for the Fund is available and can be obtained from our distribution team. A person should obtain a copy of the product disclosure statement and should consider the product disclosure statement carefully before deciding whether to acquire, or to continue to hold, or making any other decision in respect of, the units in the Fund. This report was prepared by Pengana Capital Ltd and does not contain any investment recommendation or investment advice. This report has been prepared without taking account of any person's objectives, financial situation or needs. Therefore, before acting on any information contained within this report a person should consider the appropriateness of the information, having regard to their objectives, financial situation and needs. Neither Pengana Capital Ltd nor its related entities, directors or officers guarantees the performance of, or the repayment of capital or income invested in, the Fund.