

Pengana Emerging Companies Fund



March 2007 Quarterly Review

The Pengana Emerging Companies Fund posted a net return of 13.5% over the March quarter, compared with the benchmark performance of 7.3%. Since inception in November 2004, the fund has net returned 139.1% outperforming the smallcap benchmark by almost 63%. The results are pleasing given that the fund does not invest in resources stocks, which have rallied 133% since the formation of the fund.

The fund has strong research recommendations, with an “A” rating from **Van Eyk**, a “**Highly Recommended**” rating from **Lonsec**, a “**Strong Buy**” from **InvestorWeb**, and a “**Recommended**” rating from **Morningstar**. The fund is also well rated by **Mercer**. The fund is accessible either directly for wholesale investors or through a number of platforms, including **BT Wrap**, **Macquarie Wrap**, **Asteron**, **AustChoice**, **Beacon**, **MasterKey Custom**, **Strategy**, **Symetry**, and **Wealthtrac**, as well as through various margin lending providers. The fund now has around \$260m of assets under management.

Total return performance for periods ending 31 March 2007

	3 mths	6 mths	1 yr	2 yrs p.a.	Since inception* p.a.
Pengana Emerging Companies Fund	13.5%	36.5%	54.5%	43.5%	42.0%
S&P/ASX Small Ordinaries Acc Index	7.3%	24.0%	27.8%	29.5%	26.4%
Outperformance	6.2%	12.5%	26.7%	14.0%	15.6%
S&P/ASX Small Industrials Acc Index**	6.4%	20.4%	24.1%	24.9%	22.2%
Outperformance	7.1%	16.1%	30.4%	18.6%	19.8%

* 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 all fees, and assumes reinvestment of income.

Market backdrop

We saw a continuation of very strong equity markets over the March quarter, with the broader All Ords index rallying 6.9%, and the Small Ordinaries rising 7.3%. Within the smallcap sector, resources stocks continued their rally, outperforming small industrial stocks by 3.3%. Over the quarter most companies reported their all important profit results for the six months to 31 December and apart from a few exceptions most results were of high quality. It was the strength of these results which helped fuel the market's gains.



Pengana Emerging Companies Fund

Key stock moves during the quarter

The key positive contributors over the period included **Mineral Resources (up 35%)**, **Reverse Corp (up 37%)**, **Ausenco (up 110%)**, **Dexion (up 26%)**, **Tox Free (up 51%)**, and **Cabcharge (up 15%)**. Each of these companies delivered very strong profit results leading to analysts revising upwards their profit forecasts and valuations.

The principal detractors over the quarter were **Silex (up 118%)**, **Kresta (down 17%)** and **Radio Rentals (down 4%)**. **Silex** detracted value in a relative sense as the fund does not own the stock and it forms a large weighting in the fund's benchmark. **Silex** was successful in gaining approval to commercialise its uranium enrichment technology in the US. **Kresta** was sold off after reporting a profit result that was below expectations, although the company remains very attractive trading on a forecast 2007 PER of under 8 times earnings. Whilst **Radio Rentals** continues to trade well the market has yet to focus on this recent IPO and accordingly we believe it remains mispriced.

Portfolio activity

During the period, we reduced exposure to some stocks which had reached our valuation objectives such as **WHK Group**, **Ausbrokers**, **Korvest** and **PipeNetworks**. New additions to the portfolio include **Centrebet**, **SMS Management** and **Chandler Macleod**.

Top 5 positions in the fund
Bradken
Cabcharge
MacMillan Shakespeare
Mineral Resources
Reverse Corp

Outlook

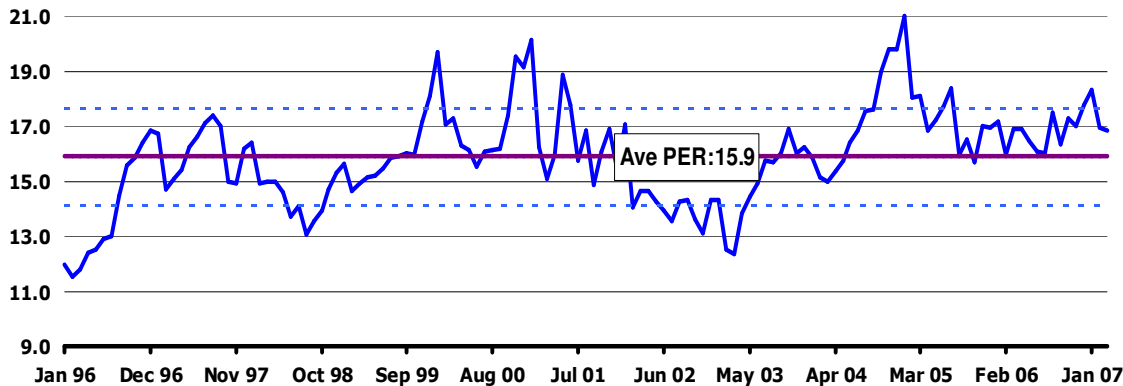
Whilst we saw a short and sharp correction in equity markets in late February/ early March the ability of the market to recover this lost ground quickly is evidence of how much money is on the side lines waiting to be invested. Factors providing strong stimulus to the market include the increasing flow of money into superannuation funds, leading up to 30 June, and the high level of dividends, share buybacks and company takeovers that are returning funds into investors' hands only to be recycled back into the market.

Whilst the average 2008 PER of small industrial companies now stands at around 17.0 times, this being slightly above the long term average (see below), this seems justifiable given that brokers are expecting earnings growth on average of 15%-20% pa for the next 2 years for these companies. The fund's average prospective PER of 15.7 times compares favourably to the market average and when combined with the fund not owning mining resource companies (where expectations are high and accordingly where disappointment could occur) should provide investors relative comfort as to the defensive qualities of the fund.

Pengana Emerging Companies Fund

Small Industrials Prospective PER Chart

Source: GSJBW Research Estimates



Our preferred exposure to the resource sector is via the mining service companies, these representing around 15% of the fund. Bradken is a preferred exposure to this industry given its prospects are driven by mining volumes rather than direct construction activity and accordingly its profits are less exposed to the volatility of commodity prices. One of the biggest challenges faced by resource service companies is the risk that major projects are delayed, deferred or cancelled due to mine project cost increases caused by the general scarcity of skilled engineers and the unavailability of construction materials. We monitor this closely as it relates to the companies we own in the sector.

Company visits

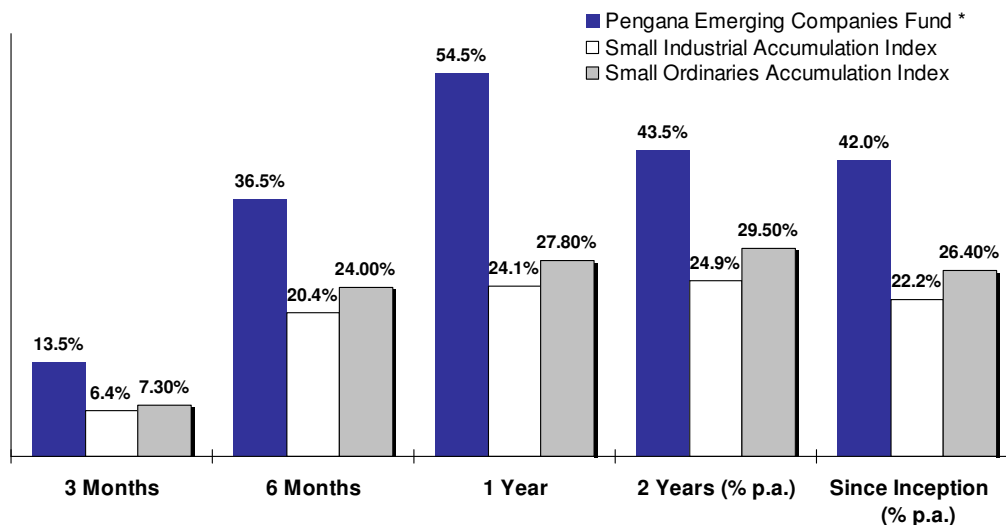
Our central belief is that contact with management is the key to unlocking value within the smallcap sector, hence during the quarter we made face-to-face contact with 90 companies and unlisted competitors of listed stocks. The table below shows the listed companies with which we had direct contact during the period.

1300 Smiles	DKN Group	Pipe Networks
Adelaide Brighton	Dolomatrix	PR Finance
APN Group	DWS	Preamium
Ariadne	Emeco	Primary Healthcare
ASG Group	ESSA	Prime Financial
Atlas Pacific	Flexigroup	Probiotec
Ausenco	Freightways	RCR Tomlinson
Austar	Funtastic	Reject Shop
Austbrokers	GBST	Resmed
Australian Wealth	GRD Ltd	Reverse Corp
Auto Holdings	HFA	Saferoads
AV Jennings	Homeloans	Salmat
Bill Express	IBT Education	Servcorp
Blue Freeway	Integrated Research	Service Stream

Pengana Emerging Companies Fund

Bradken	Invokecare	Skilled Group
BSA Group	IOOF	Slater & Gordon
Cabcharge	IOOF	SMS Mgmt
Candle	Kresta	Sonic Healthcare
CEC Group	The Mac Group	Style
Centrebet	MacMillan Shakespeare	Tassal
Chandler McLeod	Mariner Bridge	Toxfree
City Pacific	Mariner Financial	Transfield
Clive Peeters	Mineral Resources	Treasury Group
Coates Hire	Mortgage Choice	VDM Group
Colorpak	Noni B	Village Roadshow
Count Financial	Oakton	Vision Group
CPT Global	Patties	Webster
CSG Group	Pearl Street	Wellcom
Customers	Peet & Co	WHK Group
Dexion	Peoplebank	Wotif.com

Performance to 31 March 2007 (After Management Fees & Performance Fees)



For more information on the fund visit our web site on <http://www.pengana.com.au/>

Pengana Capital Ltd (ABN 30103800568) Australian Financial Services Licence no. 226566. This fact sheet was prepared by Pengana Capital Ltd and is only provided for information purposes. It does not contain investment recommendations nor provide investment advice. Neither Pengana Capital Ltd or its related entities, directors or officers guarantees the performance of, or the repayment of capital or income invested in the Fund. Professional investment advice can help you determine your tolerance to risk as well as your need to attain a particular return on your investment. We strongly recommend you obtain detailed professional advice and to read the relevant offer document in full before making an investment decision. Units in the fund will only be issued upon receipt of an application form accompanying a current Product Disclosure Statement. Included on this form is a declaration that direct investors into the fund must be "wholesale clients" as defined in section 761G of part 7.9 of the Corporations Act 2001.