



# Pengana Emerging Companies Fund

## July 2007 Update

### Fund Performance

The fund net returned 0.8% for July, outperforming the Small Ordinaries by 1.9%. The rolling 12 month performance is 71.4%. The markets fell heavily during the last week of July (Small Ords down 3.6% in the week), however our fund only fell 1.2% during the week. While this is a very small sample, it illustrates the benefits of our conservative investment style in volatile markets.

Net Returns to 31 July 2007	Pengana	Small Ordinaries	Value added
1 Month	0.8%	-1.1%	1.9%
3 Months	10.4%	4.4%	6.0%
6 Months	22.3%	15.5%	6.8%
12 Months	71.4%	43.5%	27.8%
Since inception p.a.	43.0%	27.1%	15.9%

### Key Stock Price Moves

During the month, the key positive contributors were The Reject Shop (up 17%), CSG Group (up 13%), Candle (up 14%), and Kresta (up 19%). The key detractors were APN Property (down 12%), Auto Holdings (down 6%), Chandler MacLeod (down 6%) and Reverse Corp (down 5%).

### Market Commentary and Outlook

July proved a highly volatile month, primarily driven by concerns over the sub-prime mortgage market in the US. Over the month, the All Ords fell 3%, while the Small Ords fell 1%, however, in the last week of trading, the All Ords fell 4%, lead by the resources sector which was down 5%.

Similar to prior sharp corrections over the past three years, the stocks hit hardest are ones where valuation support is less obvious (i.e. loss makers, speculative situations), such as Silex Systems (down 16%), and some of the biotech and speculative mining stocks. Lower quality stocks whose share prices were inflated by the expectation of a private equity bid have also been hit hard due to concerns over the funding of such buy-outs given the debt market correction.

Our fund continues to remain relatively defensively placed given many of our stocks have little or no corporate debt and generate strong free cashflow – the backbone of our stock selection process. The average

forward PER of our fund stands at around 16.5 compared to the small industrials PER of 17.5.

Looking forward, short term volatility is likely to continue, due to the unsettled nature of markets. The upcoming result season will refocus investors on earnings, which is the single most important medium term driver of stock prices.

In this environment, our medium term investment strategy does not change, remembering we generally buy stocks intending to hold them for 3 to 5 years. We remain heavily exposed to mining services, financial services and IT services, which are largely unaffected by any of the current issues in the US market.

### Fund Details

Fund size: \$390m

Price (mid pt at month end): \$2.35

### Top Ten Positions

Aust'n Wealth	GBST
Bradken	Mac Services
Cabcharge	Mineral Resources
CSG Group	MacMillan Shakespeare
Dexion	Reverse Corp

### Contact Details

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