



# Pengana Emerging Companies Fund

## August 2007 Update



### Fund Performance

In a highly volatile market the fund showed a negative net return of 5.5% for August, underperforming the Small Ordinaries by 1.6%. The 12 month performance is positive 54.9% net, which is 21.9% above the benchmark. During the month, the market fell by up to 15% following the sub-prime issues in the US, before rallying strongly after central bank intervention. Companies released results and outlook statements during August, which showed the underlying earnings picture to be very strong.

Our fund won the 2007 Standard and Poor's Australian Equity (Small Caps) fund of the year award in August.

Net Returns to 31 August 2007	Pengana	Small Ordinaries	Value added
<b>1 Month</b>	-5.5%	-3.9%	-1.6%
<b>3 Months</b>	-2.6%	-4.8%	2.2%
<b>6 Months</b>	12.3%	9.7%	2.6%
<b>12 Months</b>	54.9%	33.0%	21.9%
<b>Since inception p.a.</b>	<b>38.7%</b>	<b>24.5%</b>	<b>14.2%</b>

### Key Stock Price Moves

During the month, the key positive contributors were Transfield (up 16%), Webster (up 12%), Nick Scali (up 11%), Ausenco (up 11%), and MacMahon's (up 11%). The key detractors were Cabcharge (down 20%), Dexion (down 21%), Reverse Corp (down 20%), and Wellcom (down 24%).

### Market Commentary and Outlook

Global markets were incredibly volatile during August, driven by the sub-prime issues in the US, with hedge fund redemptions adding to the selling pressure.

The market's appetite for risk dropped quickly, which penalised the mining sector, stocks which rely on credit markets to fund deal flow, and stocks with unpredictable earnings streams. Further, the credit market woes created doubt about private equity funds being able to fund their acquisitions, hence corporate premiums were quickly eroded. These style of stocks typically do not appeal to us, hence a level of insulation was afforded.

Our fund was, however, hit at the margin by some of the smaller stocks being heavily sold down, with the lack of liquidity increasing the share price volatility. While this is a short term negative, we are not overly concerned as the earnings remain largely unaffected by global credit markets, and therefore the investment cases have not changed. Irrational selling during the month created great opportunities to increase our weights in quality companies

such as Australian Wealth Management, CSG Group, Fleetwood and Auto Holdings, to name a few.

Market volatility aside, the key event of August was the release of full year results and outlook statements. During the month we had direct contact with the management teams of 65 companies, providing valuable insight into the operating environment.

In our view the earnings outcomes (which are more important long term value drivers than short term sentiment) were positive. This is especially the case in the mining services, financial services and IT services sectors to which we are heavily exposed.

In summary, the recent volatility is notable, and may well continue in coming weeks, but does not meaningfully impact on our medium term investment process. We remain committed to an active company visitation program which is the key to unlocking long term value in an under-researched part of the market.

### Fund Details

Fund size: \$398m

Price (mid pt at month end): \$2.22

### Top Ten Positions

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

### Contact Details

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