



Pengana Emerging Companies Fund

October 2007 Update



Soft Closure of Fund – Direct & Platforms

The Fund has now been placed on a 'soft close' to new investors. This means that new investors will no longer be accepted into the Fund, but existing unit holders may continue to add to their investments.

Fund Performance

After a soft September quarter the market recovered strongly in October rising 5.5%. The fund delivered a net return of 8.5%, strongly outperforming the benchmark. Small resource stocks continue to eclipse the performance of small industrial stocks with their respective returns being 8.2% and 4.1% respectively over the month.

Net Returns to 31 October 2007	Pengana	Small Ordinaries	Value added
1 Month	8.5%	5.5%	3.0%
3 Months	6.2%	5.9%	0.3%
6 Months	17.3%	10.6%	6.7%
12 Months	51.1%	34.8%	16.3%
2 years pa	50.4%	32.2%	18.2%
3 years pa	41.6%	20.4%	21.1%

Key Stock Price Moves

During the month, the key positive contributors were Mineral Resources (up 31%), Bradken (up 38%), Mac Services (27%) and ASG Group (up 26%). The key detractors were Oakton (down 13%), Dexion (down 13%) and GBST Holdings (down 8%).

Market Commentary and Outlook

At present markets continue to remain highly volatile and unpredictable. For instance October's performance defied the sceptics with many commentators believing the US sub-prime concerns would continue to weigh on the market. From the market's lows in mid August the Small Ordinaries Index has climbed 22%, a timely reminder of the difficulty and dangers of trying to pick market directions. We are large advocates of well thought out stock selection being the focus when managing a portfolio rather than speculating on the direction of the market. As you are aware we aim to keep the cash holding in this fund to between 2 and 3%.

Through October many companies hosted their Annual General Meetings (AGMs). This provided management an opportunity to update the market on current trading and a key talking point has been the effect the rising A\$ is having on company's earnings. With the A\$ currently trading at

around US\$0.90 it is considerably above the US\$0.82 level it was trading when these companies last communicated with the market at the time of their profit releases in August. Accordingly there has been cautionary profit outlook comments from companies such as Billabong, Cochlear, Paperlinx and others that have large overseas based earnings.

There has also been downbeat commentary from those companies exposed to the NSW housing market. The combined effect of higher interest rates and a sluggish NSW economy have further pushed out the expected timing of a recovery in the NSW housing market. Alesco, Crane Group, GWA International and Watty all strongly underperformed as these comments were digested.

Conversely the AGM's of companies exposed to the mining industry were very upbeat. As we wrote in our last quarterly report we were in WA for 4 days during September visiting 17 companies. Whilst the fund does not invest directly in resource companies, which incidentally now represent around 32% of the Small Ordinaries Index, we have good exposure to small quality industrial companies that service these mine owners. At present the fund is around 20% invested in these mining service companies.

Fund Details

Fund size: A\$484m

Price (mid pt at month end): A\$2.491

Top Ten Positions

Aust'n Wealth	ASG Group
Automotive Holdings	Mac Services
Bradken	Mineral Resources
Cabcharge	MacMillan Shakespeare
CSG Group	Fleetwood

Contact Details

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