Pengana Emerging Companies Fund
April 2008 Update

Money Management | LONSEC
FUND MANAGER OF THE YEAR 2008
WINNER
Australian Equities – Small Cap

Fund Performance[1]

The fund returned 1.9% (after fees[1]) for April, versus the Small Industrials' rise of 2.3%. Some of the irrational selling activity in the sector has abated, however valuations are still highly favourable for stocks with robust earnings outlooks. Since inception the fund has returned 22.7% p.a., which is 14.4% p.a. above the Small Industrials benchmark and 6.6% p.a. above the Small Ordinaries benchmark. Our fund was recently awarded the 2008 Fund Manager of the Year Australian Equities - Small Cap by Money Management.

Returns to 30 April 08	Pengana[1]	S&P/ASX Small Indust	S&P/ASX Small Ords	Relative to Small Indust
1 Month	1.9%	2.3%	3.5%	**-0.4%**
3 Months	-10.0%	-4.1%	2.4%	**-6.0%**
6 Months	-27.8%	-25.5%	-17.7%	**-2.3%**
1 year	-15.4%	-21.7%	-8.9%	**6.3%**
2 years pa	15.1%	0.8%	10.0%	**14.3%**
3 years p.a.	24.4%	10.6%	19.5%	**13.7%**
Since inception p.a.[2]	**22.7%**	**8.4%**	**16.1%**	**14.4%**

Key Stock Price Moves

During the month, the key positive contributors were Transfield Services (up 16%), Radio Rentals (up 27%), Fleetwood (up 9%), and ASG Group (up 15%). The key detractors were SMS Management (down 22%), DKN Financial (down 19%), and Cabcharge (down 8%).

Market Commentary and Outlook

Some confidence, albeit tentative, returned to the market over April with the US credit markets showing some signs of stability. Provided market sentiment does not take a hit we would expect company fundamentals to again drive share prices over coming months.

Valuations remain favourable, with the Small Industrials PER at its lowest level since 2003. The average PER of the sector is now 13x, with the average in our portfolio closer to 10x. Undeniably though, earnings risk has increased in some sectors which places a high importance on stock picking.

With the domestic economy likely to slow following recent interest rate increases, we are wary of stocks in the retail, housing and media sectors. The fund's retail exposure is principally through the more defensive companies like The Reject Shop and Radio Rentals. The fund has no direct exposure to companies in the housing and media sectors. We believe the New Zealand economy will likely show a sharper slowdown than Australia, and are positioned accordingly.

Our top ten holdings (listed below) have a very low level of economic sensitivity. The only stock with any material cyclicality is Automotive Holdings, which is the largest car retailer in Australia. While new car sales may be impacted, over 70% of the company's earnings are from service/parts, and there is underlying growth coming through new outlets being opened.

The balance of the stocks are in either defensive industries (such as Tox Free which treats industrial waste), or have long dated contracts (such as Mineral Resources' crushing contracts, or Transfield Services maintenance contracts).

Debt remains a strong focus of ours, and we are comfortable knowing that over 80% of our portfolio is invested in stocks with interest cover of over 10 times (i.e. low, or no debt).

Fund details

Fund size: $336m

Redemption Price at month end: $1.77

Top Ten Positions

Automotive Holdings	Mac Services
ASG Group	MacMillan Shakespeare
CSG Group	Tox Free Holdings
Fleetwood	Treasury Group
Mineral Resources	Transfield Services

Contact Details

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[1] Total return performance figures are derived from Manager's records and are shown after all fees, and assume reinvestment of income. Investments can go up and down. Past performance is not a reliable indicator of future performance.

[2] November 2004