



Pengana Emerging Companies Fund

July 2008 Update



Fund Performance¹

The fund fell 2.1% (after fees¹) in July, which was 3.6% above the Small Ordinaries, but 4.8% below the Small Industrials Index. Volatility remains high, and liquidity low which was exacerbated by a genuine lack of commitment by local investors prior to company results season which begins in August. The resources sector fell 16.6% during the month quickly giving up recent gains.

Returns to July 08	Pengana ¹	S&P/ASX Small Industrials	S&P/ASX Small Ords	Relative to Small Industrials
1 Month	-2.1%	+2.7%	-5.5%	-4.8%
3 Months	-10.7%	-13.2%	-12.9%	+2.6%
6 Months	-19.6%	-16.8%	-10.8%	-2.9%
1 year	-31.5%	-33.9%	-24.0%	+2.3%
2 years p.a.	+8.3%	-4.6%	+4.4%	+12.9%
3 years p.a.	+16.1%	+1.5%	+9.5%	+14.6%
Since inception p.a.²	+17.5%	+3.8%	+10.8%	+13.7%

Key Stock Price Moves

During the month, the key positive contributors were Asciano (+22%), Australian Pipeline (+15%), DUET Group (+14%) and Ramsay Healthcare (+10%). The detractors included Treasury Group (-21%), Automotive Holdings (-16%), GBST (-13%) and Saferoads (-13%).

Market Commentary and Outlook

Global events again dominated markets in July. While a falling oil price was welcomed, the news from the US financial sector got worse, requiring a US government rescue of key mortgage providers, and predictions of falling house prices extending the current pain.

With the local results reporting season due to start in August, most local investors sat aside awaiting updates from management, which saw volume dry up, adding to the volatility.

The market is clearly expecting bad news in the upcoming results season. In some instances, however, far too much anticipated bad news has already been reflected in the share price. This could see some strong recoveries in oversold stocks over the coming six weeks.

Two stark examples of this, GBST and Talent 2, recently rose between 60% and 80% in less than a week following announcements showing earnings were indeed under mild pressure, but not as much as was feared.

In summary, the domestic market (especially smallcaps), has become highly inefficient. Share prices are not being driven by fundamentals. This is perversely the best time for disciplined stock pickers to take advantage of true medium term opportunities.

We have spoken about the increased earnings risk in various areas of the economy (retail, media, housing, NZ, etc.) in our reports for six months now, and have positioned our portfolio to avoid these risks as much as possible. There is scope for further disappointment in these areas. We also remain wary of highly geared companies and those which have grown aggressively via acquisition.

But it is important to remember that not all stocks are affected. Our portfolio is heavily weighted to companies able to either ride out the economic storm, or indeed keep growing in industries with favourable structural impetus.

At some stage the market will sober up and return to a focus on earnings and valuation rather than short term news flow and rumour. When this happens we believe the fund is very well positioned. While the short term is painful, this may, in hindsight, be one of the most fruitful opportunities in recent decades.

Fund Details

Fund size: \$292m

Redemption Price at month end: \$1.57

Top Ten Positions

Austbrokers	Mineral Resources
Cabcharge	Mac Services
CSG Group	MacMillan Shakespeare
Fleetwood	The Reject Shop
HFA Asset Management	Tox Free Holdings

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

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