



Pengana Emerging Companies Fund

August 2008 Update



Fund Performance¹

The fund rose 7.8% (after fees¹) in August, which was 5.9% above the Small Ordinaries, and 2.7% above the Small Industrials Index. This is pleasing given that the key driver of share prices in August was the earnings updates released by companies rather than the high level of fear which dominated in prior months. The US financial sector continues to dog short term sentiment, providing a challenging back-drop in the short term. However disciplined stock-pickers should be highly rewarded given the blanket negativity currently reflected in valuations.

Returns to August 2008	Pengana ¹	S&P/ASX Small Industrials	S&P/ASX Small Ords	Relative to Small Industrials
1 Month	+7.8%	+5.1%	+1.9%	+2.7%
3 Months	-5.4%	-7.4%	-14.6%	+2.1%
6 Months	-9.9%	-11.2%	-12.4%	+1.2%
1 year	-21.9%	-28.5%	-19.4%	+6.6%
2 years p.a.	+10.0%	-4.1%	+3.5%	+14.1%
3 years p.a.	+17.1%	+1.7%	+8.6%	+15.4%
Since inception p.a. ²	+19.4%	+5.1%	+11.1%	+14.3%

Key Stock Price Moves

The key positives were Thinksmart (+56%), Austin Engineering (+38%), Ammtec (+35%), Campbell Bros (+33%) and Mineral Resources (+15%). The detractors included Chandler MacLeod (-13%), Cabcharge (-10%), WHK Group (-8%) and Saferoads (-8%).

Market Commentary and Outlook

Finally, some facts relating to the true state of domestic earnings drove the share market. This follows months of fear over the potential for an intense and protracted impact from the US housing situation and the high oil price. While there is no doubt that recent developments require close monitoring of earnings risk, the market seems ready to focus on stock specific drivers again.

Overall company results during August were not as bad as earlier feared. While retailers certainly noticed weakness in March and June, they broadly noted a recovery in July and August as the oil price fell and the RBA indicated interest rates were likely to fall.

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

Mining services remains very strong despite the recent correction in commodity prices. Our exposure is largely through recurring income streams, and primarily in iron ore and coal which are less volatile than base metals.

The market was also reminded that there are many smallcaps whose growth is not linked to the economy. Stocks which showed very strong organic growth were Toxfree (industrial waste management), Probiotec (health supplements), ARB Corp (4WD accessories), CSG Group (IT and commercial services), Wellcom (catalogue pre production), Slater and Gordon (personal injury lawyers), and Webjet (on-line travel).

The key negative surprises related to the worsening New Zealand economy, weakness in the housing and staffing markets, the effect on earnings of higher interest costs, and patchy delivery from companies who had grown aggressively via acquisitions.

The biggest risk from here is the potential for an Australian recession. We, however, ascribe a very low likelihood of this given low unemployment, falling interest rates, recovering consumer sentiment, and domestic housing shortage (which is in stark contrast to the US).

The market remains highly inefficient, which is the perfect hunting ground for disciplined stock pickers. Valuations are still hovering around 15 year lows, and the extreme short term focus of investors has opened up some highly attractive opportunities. In a perverse way the risks of investing are now much lower than a year ago given how much prices have fallen, and how indiscriminate the selling has been.

Fund Details

Fund size: \$315m

Redemption Price at month end: \$1.70

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

For further information, please visit our website at www.pengana.com or contact in:

Australia: Justin Brooks – 03 8663 7906
justin.brooks@pengana.com

New Zealand: Martin Allison – 09 919 7407
martin.allison@abnamcrocraigs.com