

# Pengana Global Small Companies Solution Performance Report July-2006



## Fund Information

<b>Style</b>	Multi manager investing in regional small company specialists	<b>Management fee</b>	0.75% per annum
<b>Benchmark</b>	Equally weighted to the 3 major developed regions: North America, Europe including UK, Asia including Japan	<b>Performance fee</b>	10% over benchmark hurdle (net of fees)
		<b>AUM</b>	A\$45.4m
		<b>Inception date</b>	November 2005

## Fund Performance (AUD, net of fees)

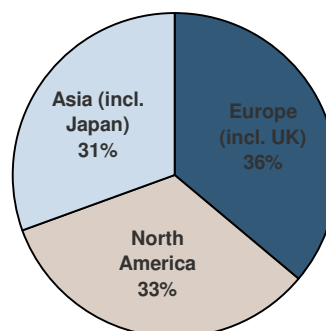
		Jan	Feb	Mar	April	May	June	July	Aug	Sep	Oct	Nov	Dec	Year
<b>2006</b>	Fund	-0.4%	1.2%	9.2%	-3.7%	-4.9%	0.2%	-5.6%						-4.6%
	Benchmark	4.0%	0.4%	7.7%	-4.1%	-5.8%	0.0%	-6.8%						-5.2%
	MSCI World	1.3%	1.7%	5.8%	-3.1%	-2.4%	1.3%	-2.6%						1.7%
<b>2005</b>	Fund											5.2%	8.8%	14.5%
	Benchmark											4.5%	7.2%	12.0%
	MSCI World											4.4%	3.0%	7.5%

## Fund Commentary

The Fund fell by -5.6% during July. While this is disappointing, we take some comfort that the Fund outperformed its benchmark in such a difficult month. The Fund employs managers that seek growing companies but are conservative in their assessment and valuation of such opportunities. The defensive qualities displayed by the Fund confirmed the merit in this approach.

At the end of the month the European manager, Kempen, was replaced with a new manager: Munros Capital Management. Management changes at Kempen late last year sparked a series of resignations, which led to the formation of Munros under the management of Neil Dunn, the previous CEO at Kempen. This presents an attractive opportunity for the Fund: Munros has an experienced and highly incentivised team with low assets under management. We will report further on Munros in next months update.

## Fund Allocation



## Fund Performance (simulated to October 2005)

Month	Fund	Benchmark	MSCI
2006 ytd	-4.6%	-5.2%	1.7%
2005	36.1%	25.4%	25.4%
2004	26.1%	23.0%	10.2%
2003	12.1%	19.1%	-1.3%
2002	-20.0%	-20.3%	-27.2%
2001	-7.5%	-6.1%	-8.9%
Annualised	6.4%	3.6%	-2.2%
Ann SD	14.7%	14.6%	12.5%

## Manager Performance (AUD, net of fees)

Month	Fund	Benchmark	Relative
North America	-7.4%	-6.5%	-0.9%
Europe	-3.7%	-3.5%	-0.2%
Asia	-5.9%	-10.4%	4.5%
<b>Since Inception (November 2005)</b>			
North America	7.9%	4.9%	3.0%
Europe	24.4%	22.3%	2.1%
Asia	-1.1%	-8.2%	7.1%

## Disclaimer

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North America		
<b>Manager</b>	Cortina AM	Cortina under performed the falling US market in July. The nervousness of US small company investors led to a rally in defensive sectors. Cortina does not typically invest in real estate investment trusts, utilities and staples, all of which benefited from the change in sentiment. Many of its leading stocks were also sold down as investors took profits in any stock that showed potential signs of weakness.
<b>Benchmark</b>	Russell 2000	
<b>Fund Allocation</b>	33.4%	
<b>July return</b>	-7.4%	
<b>Benchmark</b>	-6.5%	
<b>Top 5 positions</b>		
2.5%	C'eyond Communications	It is not Cortina's process to adapt their style in such conditions and they have made few changes to the portfolio in the belief that investors will return to stocks with strong operating margins and cash flow generation. The only portfolio alteration they foresee during the maturing economic expansion is an increased exposure to liability sensitive banks, which should benefit from the yield curve returning to a more normal shape.
2.4%	J2 Global Communications	
2.2%	Analogic	
2.1%	Psychemedics	
2.0%	Hot Topic	
Fundamentals remain strong despite the skittish market. Companies are in the process of reporting second quarter earnings and, so far, sales are up 14% and earnings 21% from a year ago. Once again, it appears that small cap earnings have been superior to large caps.		

Europe (including UK)		
<b>Manager</b>	Kempen CM	The European market also suffered during the month although on a lesser scale. Investors remain concerned regarding the scale of the economic slowdown and its impact on some cyclical sectors. Kempen outperformed in this environment with strong stock selection making the difference. Macintosh, the funds largest holding, performed well following good results. The strongest contributor was the technology group Elexis, which rebounded following a disproportionate fall in its stock price.
<b>Benchmark</b>	HSBC Europe	
<b>Fund Allocation</b>	36.0%	
<b>July return</b>	-3.7%	
<b>Benchmark</b>	-3.5%	
<b>Top 5 positions</b>		
3.6%	Macintosh Retail	Kempen maintained a watching brief over the portfolio in the latter half of the month as preparations were made for the transition to the new manager, Munros Capital Management. Stock positions did not change significantly over this period and the main exposures did not change between month ends. The entire portfolio was transferred in stock with minimal cost to the Fund.
3.2%	Trygvesta	
2.7%	Lindex	
2.5%	Prosafe	
2.4%	DSV	
Munros, based in Edinburgh, is a newly formed independent European small cap specialist. The majority of the team is ex Kempen and has significant knowledge and experience in Euro small caps. Munros will manage a mixed small and micro cap mandate.		

Asia (including Japan)		
<b>Manager</b>	Sparx AM	Market activity was very weak in Japan, with downward revisions to company earnings statements undermining the market. A number of large equity offerings and the continued disquiet regarding the US, and therefore global, economic position compounded the falls.
<b>Benchmark</b>	Topix / JASDAQ	
<b>Fund Allocation</b>	30.6%	
<b>July return</b>	-5.9%	
<b>Benchmark</b>	-10.4%	
<b>Top 5 positions</b>		
4.9%	Nissay Dowa	This year has already seen more downward revisions to company's earnings statements than expected. Most of these revisions were made by smaller cap emerging growth companies, listed mainly on TSE Mothers, Osaka Hercules, and JASDAQ. These stocks are within Sparx's benchmark but it succeeded in avoiding many of them and posted a significant outperformance for the month.
4.5%	Sumitomo RE	
4.3%	Shoei Company Ltd	
4.3%	Obie Co Ltd	
4.1%	Toyo Tanso Co. Ltd	
The fund continues to favour domestic names with growth potential, such as Banks and Financials, and avoid the more "at risk" sectors. During the month it benefited from its exposure to Oil & Coal Products, Precision Equipment and Glass and Ceramics, sectors that were able to increase selling prices on the back of strong demand.		

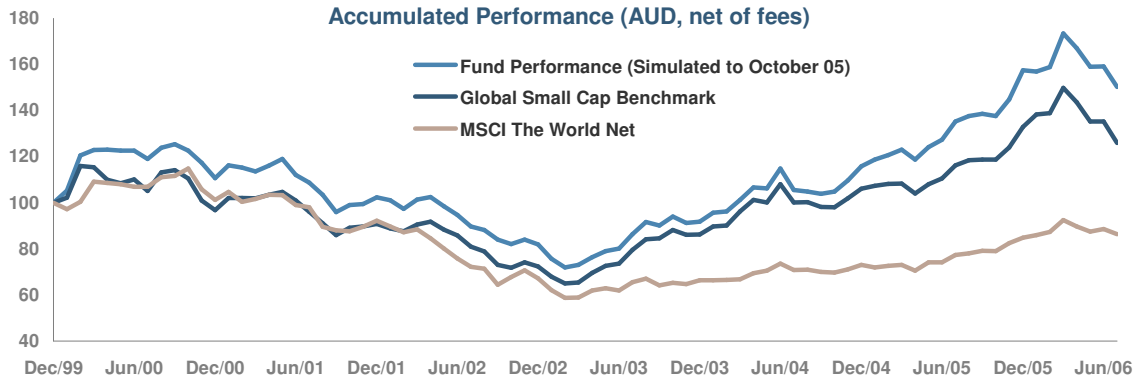
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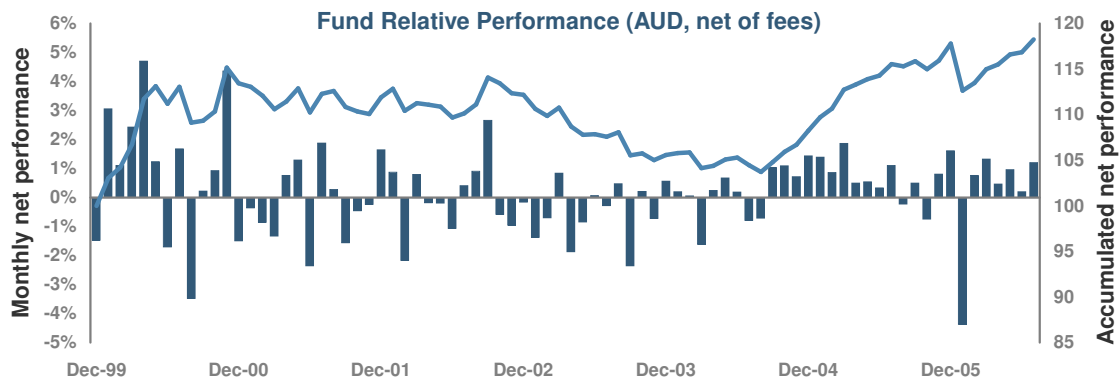
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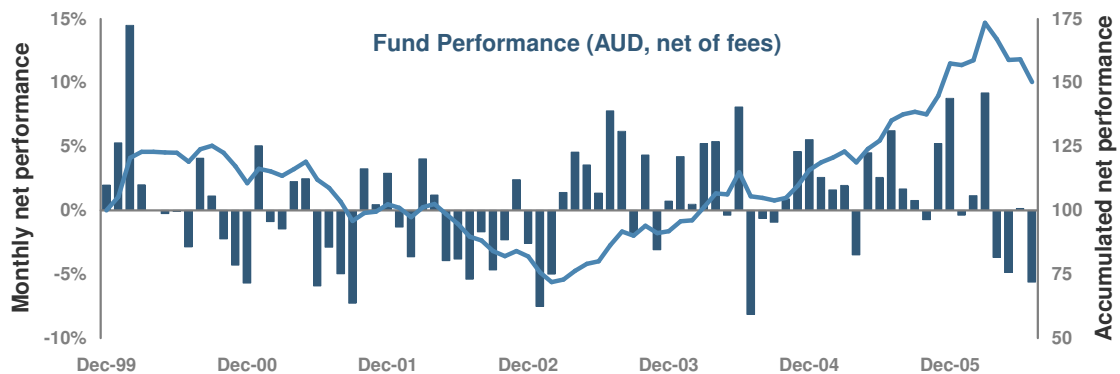
## Accumulated Fund and Benchmark Performance



## Monthly Fund Relative Performance



## Monthly Fund Absolute Performance



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