

Pengana Emerging Companies Fund May 2009 Update



1 of 3

Fund Performance

Net performance for periods ending 31 May 2009 ¹							
	1 month	3 months	6 months	1 year	2 years p.a.	3 years p.a.	Since inception p.a. ²
Pengana Emerging Companies Fund	4.4%	17.9%	13.2%	-30.2%	-25.1%	-1.3%	8.5%
S&P/ASX Small Industrials Acc Index ³	2.1%	26.7%	9.7%	-36.0%	-31.0%	-12.6%	-3.8%
Outperformance	2.3%	-8.9%	3.6%	5.7%	5.9%	11.3%	12.4%
S&P/ASX Small Ordinaries Acc Index	7.4%	34.4%	24.5%	-38.5%	-25.7%	-7.0%	1.6%
Outperformance	-3.1%	-16.6%	-11.3%	8.3%	0.7%	5.7%	6.9%

Fund Commentary

The fund returned 4.4% in May as markets continued to rebound globally. From the lows in early March, the fund has returned 25%. Smallcaps continue to outperform in the recent bounce, rising by 41% since early March versus 22% for the All Ords. In this time, mining stocks (which we do not invest in), have outperformed dramatically (up 52%).

Our fund continues to be relatively conservatively positioned, with a focus on quality and managing risk. We also recognise many cyclical stocks are potentially very cheap if the decline in earnings is not as bad as feared. While this has worked very well for us in recent months, we are being very choosy by avoiding speculative situations, stocks where the debt is too high, or earnings streams which are highly unpredictable. While some of the recent spectacular share price bounces in some lower quality stocks are impressive, this can unwind quickly if earnings and balance sheet pressures come to bear. Timbercorp and Great Southern's recent demise are timely reminders of the dangers of taking on too much risk.

There remains too much uncertainty globally to take a strong view on the timing and strength of a genuine return to economic growth. Certainly, recent data points suggest a return to growth later this year driven initially by a rebuild in inventories. Whether this is backed up by a more sustainable rebound in activity is yet to be seen.

We believe there is a reasonable possibility that the Australian economy recovers more quickly than the USA, Japan and Europe. This is due to a housing shortage (as opposed to over-build), less exposure to distressed financial assets, and a closer reliance on the Chinese economy, which is showing signs of a meaningful bounce in activity later this year.

Following last years' disasters many investors have exited the smallcap market resulting in a less crowded environment for stock pickers such as us. Therefore, even if markets do not fully recover in the short term, the rewards for disciplined stocks pickers could prove handsome given the lack of focus the sector is currently attracting.

Key stock price moves

Key successes during the month included Thinksmart (up 72%), CSG Group (30%), Navitas (20%), Radio Rentals (18%), and Toxfree (13%). Key detractors were Billabong (down 22%), Resmed (14%), Wellcom (10%), WHK Group (6%), and Salmat (6%).

¹ Net performance figures are derived from Manager's records and are shown after all fees and expenses, and assume reinvestment of income. Past performance is not a reliable indicator of future performance. The value of investments can go up and down.

² Since November 2004

³ The fund does not invest in resource stocks.

Pengana Emerging Companies Fund May 2009 Update



2 of 3

Market Commentary and Outlook

The speed and rate of the recent market rally has taken many (including us) by surprise. It has been driven by a sense that the banking system has stabilised, and that the economic impact from the crisis has become quantifiable. Sentiment in March was driven by a sense that the economic impact of the crisis was infinite, and that cash and gold were the only assets to trust. A 25%+ rally in three months shows just how important sentiment can be when markets turn.

During May, leading indicators continued to show promising signs, most notably US consumer confidence which rose dramatically. The leading indicators from China (e.g. CLSA PMI index) also point to activity rebounding during this year. These data points are indicative at best, and may simply reflect a rebuild in inventories globally, which may not necessarily lead to a sustained recovery. Hence forming a strong view is not currently possible. On the flipside, those who wish to wait for firm evidence that an economic recovery is underway will also likely miss the share market upside due to the forward looking nature of markets.

The Australian economy looks likely to be somewhat insulated from the worst of the economic impacts compared to the USA, Europe and Japan. Our financial system is far less exposed to distressed assets, our housing market remains in deficit which is likely to cushion property prices, and our links to the Chinese economy are strong. If growth resumes in China at historical rates it will be due to stimulus packages which are not reliant on global export markets. Hence as China rebuilds, our economy is likely to benefit even though China's trading partners remain depressed. This week's manufacturing data from China showed a resumption in growth following a dip last year. Interestingly, from the lows made in early March, the Australian market has bounced by 22% versus a 35% bounce in the US market, despite the positive signs emerging from the Chinese economy.

The unit price of our fund has now bounced 25% from the lows in March. Our fund remains primarily weighted towards companies with highly predictable earnings streams that are not heavily reliant on the overall economy. We have also benefited in recent months from a shift towards some cyclical stocks where the earnings are tied to the economy, but where the share price has factored in a more severe downturn in earnings than is likely. We remain vigilant to such opportunities which are likely to outperform the market if the recovery continues, as investors look past the current volatility and towards a potential recovery.

We remain totally averse to companies with vulnerable balance sheets, unless a capital raising is presented which, in itself, fixes the balance sheet. For example we participated heavily in the Transfield Services raising in November 2008 and have watched the share price more than double since. More recently, we participated in the STW Communications placement which saw the company raise capital at a PER of under 5x. We would anticipate a cyclical recovery to earnings over the coming 12-18 months, which is likely to drive a re-rating from the current low multiple. Importantly we invested *after* the balance sheet was repaired.

Standing back from the larger economic issues, we firmly believe the environment for disciplined stock pickers with a medium term focus has never been better. The collapse in prices has scarred many investors who have sworn off the sector for some time. This leaves a relatively uncrowded space for those remaining, hence our ability to find mis-priced stocks where others aren't looking is heightened.

Top 10 Positions (in alphabetical order)	
Austbrokers Holdings	Sonic Healthcare
CSG Group	Slater & Gordon
Customers	Toxfree Solutions
McMillan Shakespeare	Transfield Services
Probiotec	WHK Group

Pengana Capital Ltd (ABN 30 103 800 568, Australian financial services license number 226566) is the issuer of units in the Pengana Emerging Companies Fund (the "Fund"). A product disclosure statement for the Fund is available and can be obtained from our distribution team. A person should obtain a copy of the product disclosure statement and should consider the product disclosure statement carefully before deciding whether to acquire, or to continue to hold, or making any other decision in respect of, the units in the Fund. This report was prepared by Pengana Capital Ltd and does not contain any investment recommendation or investment advice. This report has been prepared without taking account of any person's objectives, financial situation or needs. Therefore, before acting on any information contained within this report a person should consider the appropriateness of the information, having regard to their objectives, financial situation and needs. Neither Pengana Capital Ltd nor its related entities, directors or officers guarantees the performance of, or the repayment of capital or income invested in, the Fund. An investment in the fund is subject to investment risk including possible delays in repayment and loss of income and principal invested.

Pengana Emerging Companies Fund

May 2009 Update



3 of 3

Fund Description

The Pengana Emerging Companies Fund combines the skills of highly experienced small company investors (collectively 30 years experience) with a limited fund size to provide above market returns over the medium term. Our benchmark is the S&P/ASX Small Ordinaries Accumulation Index. The fund managers Steve Black and Ed Prendergast are part owners of the business and investors in the fund, providing a strong incentive to perform. The Fund has strong research ratings from all major research houses and over the period since its inception has delivered returns well above benchmark.

Fund Features

Style	Bottom up stock picker	Management Fees	1.3325%
Benchmark	S&P/ASX Small Ordinaries Accumulation Index	Performance Fees	20.5% of the performance above the Benchmark
Investors	Open	Fund Raising	Maximum of 0.5% of the Benchmark capitalisation
Minimum Initial Investment Amount	A\$25,000 (direct)	FUM at Month End	A\$ 207m
Inception Date	1 November 2004	Application Price at Month End	A\$ 1.220
Identification Code(s)	APIR PER0270AU ARSN 111 894 510	Redemption Price at Month End	A\$ 1.216

Contact Details

Pengana Capital Limited • Level 29, 20 Bond Street, Sydney, NSW 2000, Australia • T +61 2 8524 9900 • F +61 2 8524 9901
ABN 30 103 800 568, AFSL 226566

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

Institutional Clients: Denis Carroll, +61 2 8524 9974, denis.carroll@pengana.com

Private Clients: Juliet Dunworth, +61 2 8524 9984, juliet.dunworth@pengana.com

Advisors & Retail Clients: Justin Brooks, +61 3 8663 7906, justin.brooks@pengana.com

Pengana Capital Ltd (ABN 30 103 800 568, Australian financial services license number 226566) is the issuer of units in the Pengana Emerging Companies Fund (the "Fund"). A product disclosure statement for the Fund is available and can be obtained from our distribution team. A person should obtain a copy of the product disclosure statement and should consider the product disclosure statement carefully before deciding whether to acquire, or to continue to hold, or making any other decision in respect of, the units in the Fund. This report was prepared by Pengana Capital Ltd and does not contain any investment recommendation or investment advice. This report has been prepared without taking account of any person's objectives, financial situation or needs. Therefore, before acting on any information contained within this report a person should consider the appropriateness of the information, having regard to their objectives, financial situation and needs. Neither Pengana Capital Ltd nor its related entities, directors or officers guarantees the performance of, or the repayment of capital or income invested in, the Fund. An investment in the fund is subject to investment risk including possible delays in repayment and loss of income and principal invested.