

Pengana Global Small Companies Solution

May 2009 Update, by Nick Griffiths



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Fund Description

The Pengana Global Small Companies Solution uses a multi manager approach, investing with regional small company investment specialists to produce a global portfolio. Small companies have the potential to provide attractive returns to investors, and should perform well relative to the broader market over the long term due to their greater risk premium. Pengana has selected underlying managers that demonstrate a superior understanding of their respective markets and an ability to capitalise on this relatively inefficient asset class. The Fund currently invests in three regions: North America, Europe and Asia, with the Benchmark equally weighted between the three regions. The Fund is passively rebalanced back to the Benchmark, and exposure to international investments hedged back into Australian dollars, with the intention of covering the Fund's exposure to currency risk.

Fund Features

Style	Multi manager investing in regional small company specialists	Management Fees¹ (monthly)	0.7688% p.a.
Benchmark	Equally weighted to the three major developed regions: North America, Europe including UK, and Asia including Japan	Performance Fees¹ (quarterly)	10.25% p.a. over benchmark hurdle (net of fees)
Investors	Open to Retail Clients	Underlying Manager Costs	The costs will be within the range of 0.5% p.a. to 1% p.a.
Minimum Initial Investment Amount	A\$25,000 (direct)	AUM at Month End	A\$23.8m
Inception Date	November 2005	Application/ Redemption Price at Month End	Application: A\$0.5617 Redemption: A\$0.5573
Identification Code	ARSN 120 300 450		

Fund Commentary

Fund Performance (A\$, net of fees)^{2,3}

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2009	-4.3%	-7.2%	4.3%	10.2%	6.5%								8.8%
2008	-11.7%	-1.7%	-2.8%	3.8%	3.9%	-7.5%	-2.4%	-0.9%	-11.5%	-24.4%	-1.7%	-2.2%	-47.5%
2007	5.2%	0.1%	-1.0%	0.1%	2.3%	-3.4%	-2.0%	-4.0%	-0.4%	5.1%	-7.7%	-2.9%	-9.2%
2006	-0.4%	1.2%	9.2%	-3.7%	-4.9%	0.8%	-5.6%	3.0%	3.9%	0.1%	1.2%	2.6%	6.7%
2005											5.2%	8.8%	14.5%

All of the Fund's underlying managers generated strong returns for the month of May, in both relative and absolute terms. Cortina in particular has performed well this year, maintaining a high quality defensively focused portfolio but still outperforming during the strong market rally.

The performance of the Fund was held back by the high cash weighting that we have retained to facilitate an investment in an Asia ex Japan small cap manager. We see great opportunities in this region which has been as hard hit as the more developed stock markets while not facing many of the same issues. We also remain cautious as to the longevity of the current rally and would not be surprised by a subsequent correction in equity markets.

Fund Performance to 31 May 2009 (A\$, net of fees)^{2,3}

	1 Month	3 Months	1 Year	Financial YTD	Since Inception p.a.	Standard Deviation
Fund	6.5%	22.4%	-37.3%	-32.2%	-12.0%	20.5%
Benchmark	6.1%	27.5%	-30.9%	-24.8%	-12.7%	20.2%
North America	5.7%	34.0%	-17.0%	-7.9%	-4.9%	23.0%
Benchmark	3.0%	29.6%	-32.3%	-26.5%	-9.9%	23.3%
Europe	9.0%	31.3%	-47.3%	-41.7%	-10.4%	27.0%
Benchmark	6.4%	33.0%	-33.8%	-25.9%	-7.3%	24.5%
Asia	13.7%	22.3%	-36.5%	-32.5%	-17.9%	26.2%
Benchmark	8.9%	19.3%	-29.2%	-24.9%	-21.9%	21.1%

¹ Including GST less any reduced tax input credits. Please refer to the Product Disclosure Statement for a more detailed explanation.

² Past performance is not a reliable indicator of future performance

³ The fund's currency exposure was unhedged until 30 June 2007

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Fund Commentary (cont'd)

North America		
Manager	Cortina AM	Cortina generated a return of 5.7% for the month of May, 2.7% above the return of the Russell 2000 Index. The US small company market has now rallied 43.5% from its low in mid March however, due to the very poor start to the year, the Russell 2000 Index is now only up 1.1% year to date.
Benchmark	Russell 2000	
Fund Allocation	30.1%	
Month Return ^{2,3}	5.7%	
Benchmark	3.0%	
Top 5 Positions		Interestingly, it is the weaker companies that have outperformed during the rally, which is evidenced by a number of statistics: low return on equity (ROE), smaller capitalisation and non dividend paying stocks have all out performed their stronger competitors. This is not uncommon during a market recovery from a heavily sold off position as investors seek the stocks they believe have the greatest upside. Cortina has performed particularly well considering this dynamic. Stock holdings within the Technology and Industrial sectors generated positive returns during the month. Consumer Discretionary positions have however disappointed and this sector was down weighted during the course of the month.
2.8%	Argo Group Intl Holdings	
2.5%	Micros Sys inc	
2.3%	JDA Software Group inc	
2.1%	Monro Muffler Brake inc	
2.0%	Plantronics INC	

Europe (including UK)		
Manager	Munros CM	The European market has followed the US lead and posted its 3rd positive month in a row. The Munros portfolio increased by 9.0% during May while the HSBC Smaller Companies Index appreciated by 6.4%.
Benchmark	HSBC Europe	
Fund Allocation	32.2%	
Month Return ^{2,3}	9.0%	
Benchmark	6.4%	
Top 5 Positions		The Irish market was the strongest during the month, rising 31.7%. As noted in previous reports, it was one of the hardest hit in the bear market given its dependence on Finance and Tourism. The UK was the weakest returning just 1.5%. There was a clear performance distinction between "recovery" and "defensive" stocks during the month as holding such as IFG (Financial services) and C&C (Liquor manufacturing and distribution) generated +25% returns, and others such as Neopost (Logistics) Arzyta (Food and agribusiness) lost ground. Institutional investors are showing greater interest in this market although volumes at this stage remain low. One has to believe though that any sustained economic recovery in Europe is some time away and that the small company market will remain fragile in the meantime.
5.6%	C & C Group	
4.6%	Aberdeen Asset Management	
4.3%	Ramirent	
4.3%	Ansaldo	
4.2%	Wincor Nixdorf	

Asia (including Japan)		
Manager	Sparx AM	Japanese small companies also appreciated in value for the 3rd consecutive month. The MSCI Japan Small Cap Index generated 8.9% while Sparx's Fund appreciated 13.7%. The leading economic indicators index in Japan rose for the first time in 6 months although unemployment continues to rise. Rallies in offshore equity markets and signs that the pace of economic deterioration may be slowing were however enough to buoy markets.
Benchmark	MSCI Japan Small	
Fund Allocation	23.1%	
Month Return ^{2,3}	13.7%	
Benchmark	8.9%	
Top 5 Positions		Sparx generated strong returns in electronic appliance makers and machinery manufacturers as product demand improved. Low liquidity stocks, which the Fund has purchased on attractive valuations, had a negative contribution after strong recent performance. The current portfolio is a combination of stocks likely to benefit from growth in developing economies, such as China, and from worldwide stimulus packages. Sparx also favour stocks with relative strength within their industries, as they are likely to improve their market share, and also less liquid opportunities if they are trading well above book value.
3.7%	Shinwa Kaiun Kaisha, Ltd	
3.4%	SBS Holdings, Inc	
3.2%	Nihon Dengi Co. Ltd	
3.2%	Dai-Ichi Co. Ltd	
3.1%	Nippon Seiki Co. Ltd	

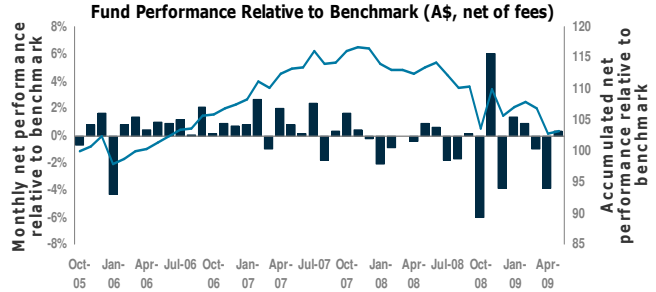
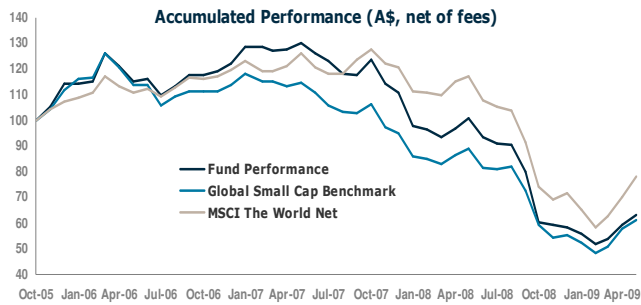
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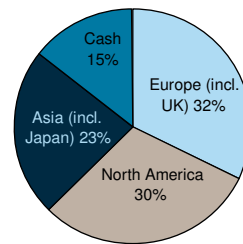
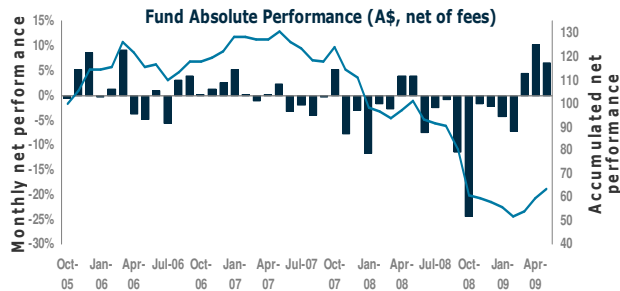
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Accumulated Fund and Benchmark Performance ^{2,3} Monthly Fund Relative Performance ^{2,3}



Monthly Fund Absolute Performance ^{2,3} Fund Allocation



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