

# Pengana Global Small Companies Solution

## July 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

<b>Style</b>	Multi manager investing in regional small company specialists	<b>Management Fees<sup>1</sup> (monthly)</b>	0.7688% p.a.
<b>Benchmark</b>	Equally weighted to the three major developed regions: North America, Europe including UK, and Asia including Japan	<b>Performance Fees<sup>1</sup> (quarterly)</b>	10.25% p.a. over benchmark hurdle (net of fees)
<b>Investors</b>	Open to Retail Clients	<b>Underlying Manager Costs</b>	The costs will be within the range of 0.5% p.a. to 1% p.a.
<b>Minimum Initial Investment Amount</b>	A\$25,000 (direct)	<b>AUM at Month End</b>	A\$25.7m
<b>Inception Date</b>	November 2005	<b>Application/ Redemption Price at Month End</b>	Application: A\$0.6102 Redemption: A\$0.6054
<b>Identification Code</b>	ARSN 120 300 450		

### Fund Commentary

Fund Performance (A\$, net of fees) <sup>2,3</sup>													
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2009	-4.3%	-7.2%	4.3%	10.2%	6.5%	2.9%	5.5%						18.2%
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%

The Global Small Companies Solution returned 5.5%<sup>2</sup> in July, 0.5% below the performance of the composite index. The return from the year has increased to 18.2%<sup>2</sup> with the last 5 months contributing 33.0%<sup>2</sup>.

Despite the strength of the rally in small companies our managers are in general agreement on 2 points: firstly that it has been the lower quality stocks that have outperformed over the previous five months and secondly that the impetus for the rally has been the synchronised government stimuli combined with a sense of relief that the outlook is less bleak than feared, rather than strong corporate earnings. The managers are accordingly cautious and are focused on quality companies that demonstrate earnings transparency and genuine growth prospects in the medium term.

Final due diligence has been completed on an Asia ex Japan manager and an investment will be made in August. We will provide further details of this manager next month.

Fund Performance to 31 July 2009 (A\$, net of fees) <sup>2,3</sup>						
	1 Month	3 Months	1 Year	Financial YTD	Since Inception p.a. <sup>4</sup>	Standard Deviation
<b>Fund</b>	5.5%	15.7%	-24.6%	5.5%	-9.5%	21.4%
Benchmark	6.0%	15.5%	-14.8%	6.0%	-9.3%	20.2%
<b>North America</b>	8.8%	19.2%	-0.9%	8.8%	-1.6%	23.0%
Benchmark	9.5%	14.2%	-21.9%	9.5%	-7.1%	23.3%
<b>Europe</b>	6.1%	15.8%	-31.3%	6.1%	-8.5%	26.6%
Benchmark	7.2%	13.6%	-18.1%	7.2%	-5.6%	24.3%
<b>Asia</b>	4.6%	32.3%	-18.3%	4.6%	-13.8%	26.5%

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

<sup>2</sup> Total return performance figures are shown net of all fees and charges and assume reinvestment of distributions. Past performance is not a reliable indicator of future performance. The value of investments can rise and fall.

<sup>3</sup> The fund's currency exposure was unhedged until 30 June 2007

<sup>4</sup> Inception: November 2005

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Benchmark	1.1%	18.3%	-7.6%	1.1%	-16.8%	21.3%
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### Fund Commentary (cont'd)

North America		
Manager	Cortina AM	Cortina generated an estimated return of 8.8% for the month, slightly less than the return of the Russell 2000 Index. This is the first month this year that Cortina has failed to exceed its benchmark.
Benchmark	Russell 2000	
Fund Allocation	34.5%	
Month Return <sup>2,3</sup>	8.8%	
Benchmark	9.5%	
<b>Top 5 Positions</b>		
2.5%	Argo Group Intl Hldgs	Despite a weak start to the month, markets rebounded sharply on improving economic statistics and upward revisions from many companies. The US small cap market was no exception. Cortina however observes that the stronger performing stocks in July, and to a degree during the entire rally this year, have been the lower quality stocks. Stocks with poor earnings, low return on equity and share prices less than \$5 have all performed well. These stocks are typically the targets for more speculative trades entered into at the start of a bull market.
2.2%	Wms Inds Inc Com	
2.1%	JDA Software Group	
2.1%	Plantronics Inc New	
2.0%	Micros Sys Inc	
Cortina have done exceptionally well this year to outperform such a market. They continue to hold a highly diversified portfolio of quality growth stocks with unique franchises in their business operations. We expect them to continue to perform well as investors focus more on fundamentals in coming months.		

Europe (including UK)		
Manager	Munros CM	The European small cap market also enjoyed a strong month. Munros generated a good return of 6.1% but under performed the Index return of 7.2%. The rally was sparked mid month by positive Q2 earnings data that suggested a better than expected operating environment.
Benchmark	HSBC Europe	
Fund Allocation	32.7%	
Month Return <sup>2,3</sup>	6.1%	
Benchmark	7.2%	
<b>Top 5 Positions</b>		
4.5%	Ramirent	We are not overly concerned regarding Munros' under performance of the market in the recent rally. As discussed above, the early stages of this recovery have been characterised by strong performance from lower quality stocks as investors speculate and seek to make significant profits as the market turns. This is the part of the cycle in which Munros predict they will struggle to keep up with the market.
4.0%	C&C Group	
4.0%	Ansaldo	
3.8%	Hellenic Exchanges	
3.7%	Tandberg	
Munros generated significant returns through a number of their holdings during the month. Two notable examples are IFG (+31%) and Charter (+29%), both of which reversed falls in the previous month thanks to improving earnings data. IFG remains particularly cheap on 5x earnings.		
The Irish market has performed well of late but it had to make way for others to take the lead in July: Finland, Denmark and France were the strongest. Significant concerns remain regarding the outlook in the UK.		

Asia (including Japan)		
Manager	Sparx AM	The Japanese small company market followed a similar pattern to the US and Europe during July but did not generate as substantial a return. Sparx however out performed by a healthy margin, generating a return of 4.6%, not far behind our other managers.
Benchmark	MSCI Japan Small	
Fund Allocation	20%	
Month Return <sup>2,3</sup>	4.6%	
Benchmark	1.1%	
<b>Top 5 Positions</b>		
3.2%	SBS Holdings, Inc	The month's performance continues a good run for the Japanese market, which has now appreciated in each of the last 5 months. Japanese corporate earnings have exceeded expectations and the global macro economic picture is clearing. Sparx however remain sceptical as to the longevity of this bullish period given that initial earnings estimated offered by companies may have been overly conservative, and that longer term growth prospects for many companies are questionable once the effects of the recent stimulus packages diminish. The rally has been borne more out of relief that the situation is not as bad as once feared than optimism with respect to real economic growth.
3.0%	Village Vanguard Co	
3.0%	Nittoku Engineering Co	
2.7%	Message Co Ltd	
2.5%	Nihon Dengi Co. Ltd	
Sparx continues to focus on domestic names that demonstrate medium term strength and stocks that have been overlooked in the recent rally. They believe the outlook for small companies remains strong as more investors return to the market and recognise their attractive valuations versus larger companies.		

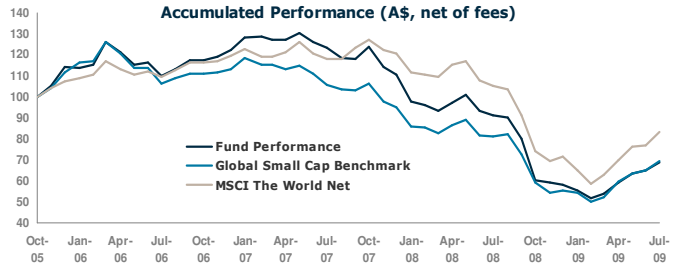
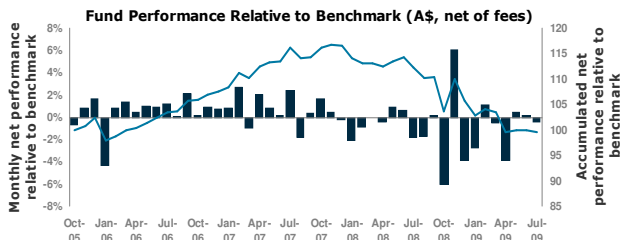
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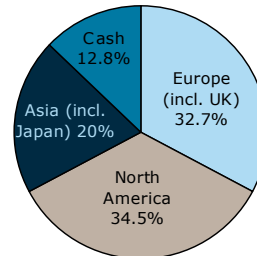
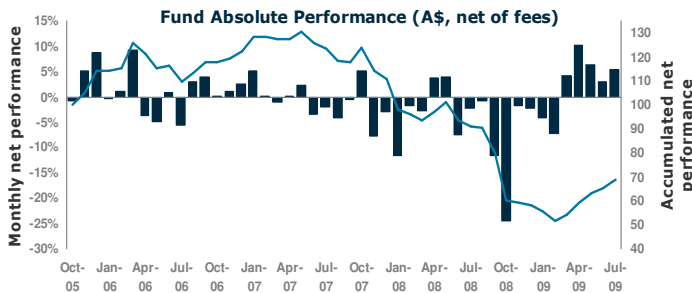
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### Accumulated Fund and Benchmark Performance <sup>2,3</sup> Monthly Fund Relative Performance <sup>2,3</sup>



### Monthly Fund Absolute Performance <sup>2,3</sup> Fund Allocation



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