

# Pengana Emerging Companies Fund

## October 2009 Update



PENGANA  
CAPITAL

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Australian Equities - Small Caps

### Fund Performance

Net performance for periods ending October 31 2009 <sup>1</sup>							
	1 month	3 months	6 months	1 year	2 years p.a.	3 years p.a.	5 years p.a.
<b>Pengana Emerging Companies Fund</b>	2.2%	27.1%	47.2%	40.2%	-15.0%	3.0%	15.5%
<b>S&amp;P/ASX Small Industrials Acc Index<sup>2</sup></b>	-1.2%	15.5%	33.3%	29.1%	-21.6%	-8.3%	1.8%
<b>Outperformance</b>	<b>3.4%</b>	<b>11.6%</b>	<b>13.9%</b>	<b>11.0%</b>	<b>6.7%</b>	<b>11.3%</b>	<b>13.7%</b>
<b>S&amp;P/ASX Small Ordinaries Acc Index</b>	-1.2%	10.4%	33.3%	39.6%	-19.2%	-4.2%	6.0%
<b>Outperformance</b>	<b>3.4%</b>	<b>16.7%</b>	<b>13.9%</b>	<b>0.5%</b>	<b>4.3%</b>	<b>7.2%</b>	<b>9.5%</b>

### Fund Commentary

The month of October marked the Fund's fifth year since inception. Over that period, the Fund has returned an average of 15.5% per annum (after fees). This compares to 1.8% per annum for the Small Industrials Index and 6.0% per annum for the Small Ordinaries Index. We broadly outperformed the market in the bull phase, through the calamity of 2008, and in the recovery phase in 2009. Since inception there has been no change in personnel or process, and the fund managers remain heavily invested in the Fund. We firmly believe our process will continue to deliver superior returns into the medium term.

For the month of October, the Fund returned 2.2% versus the Small Industrials which fell 1.2% and the Small Ordinaries which also fell 1.2%. From the lows in early March, the Fund has now returned 78%<sup>1</sup>.

The rally in global markets stalled in October based on consumer and housing data in the US creating doubts over the strength of the economic recovery. The cyclical stocks were hardest hit, having outperformed in the prior seven months.

Our portfolio retains a healthy skew to companies which can exhibit growth without heavily relying on the underlying state of the economy. We also have a reasonable exposure to stocks which are more cyclically exposed, which has worked very well for us since the market lows in March. In many cases the share prices of such stocks have well exceeded our expectations; hence we have sold down or out where appropriate. Many though, still show considerable upside potential as the domestic economy repairs itself over the coming two years.

It is difficult to believe that in less than six months, we have watched the consensus view move from predictions of 9% unemployment in Australia, to fear of a skills shortage. Expansions in the resources sector is likely to recover very quickly and potentially exceed the prior boom driven by iron ore and gas projects. This opens up significant earnings opportunities in the smallcap space.

In many cases the "easy money" has dried up; however the sector remains highly fertile for disciplined stock pickers. We still believe the market is uncrowded, and valuations in certain stocks highly attractive hence our confidence in the medium term is high.

#### Key stock price moves

Key successes during the month included Sirtex (+24%), Mineral Resources (+17%), Skilled Engineering (+15%), Dominos Pizza (+14%), REA Group (realestate.com.au) (+9%). Key detractors were Nomad Building (-26%), DKN Group (-12%), WDS (-12%), Asciano (-8%) and Customers (-5%).

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

<sup>2</sup> The Fund does not invest in resource stocks.

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### Portfolio information

Top 10 Positions (in alphabetical order)	
CSG Group	REA (realestate.com.au)
Customers	Slater & Gordon
Mineral Resources	Toxfree
McMillan Shakespeare	Transfield Services
M2 Communications	WHK Group

### 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 and an objective of providing 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

<b>Style</b>	Bottom up stock picker	<b>Management Fees</b>	1.3325%
<b>Benchmark</b>	S&P/ASX Small Ordinaries Accumulation Index	<b>Performance Fees</b>	20.5% of the performance above the Benchmark
<b>Investors</b>	Open	<b>Fund Raising</b>	Maximum of 0.5% of the Benchmark capitalisation
<b>Minimum Initial Investment Amount</b>	A\$25,000 (direct)	<b>FUM at Month End</b>	A\$ 327m
<b>Inception Date</b>	1 November 2004	<b>Application Price at Month End</b>	A\$ 1.6892
<b>Identification Code(s)</b>	APIR PER0270AU ARSN 111 894 510	<b>Redemption Price at Month End</b>	A\$ 1.6790

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