

# Pengana Emerging Companies Fund

## November 2009 Update



PENGANA  
CAPITAL

1 of 2

Australian Equities - Small Caps

### Fund Performance

Net performance for periods ending November 30 2009 <sup>1</sup>							
	1 month	3 months	6 months	1 year	3 years p.a.	5 years p.a.	Since inception p.a. <sup>2</sup>
<b>Pengana Emerging Companies Fund</b>	1.8%	15.6%	43.5%	62.4%	2.8%	14.9%	15.6%
<b>S&amp;P/ASX Small Industrials Acc Index<sup>3</sup></b>	-1.1%	4.5%	29.2%	41.7%	-9.7%	0.9%	1.5%
<b>Outperformance</b>	<b>2.8%</b>	<b>11.1%</b>	<b>14.3%</b>	<b>20.8%</b>	<b>12.6%</b>	<b>14.0%</b>	<b>14.1%</b>
<b>S&amp;P/ASX Small Ordinaries Acc Index</b>	1.8%	5.6%	26.2%	57.2%	-4.9%	5.8%	6.2%
<b>Outperformance</b>	<b>0.0%</b>	<b>9.9%</b>	<b>17.2%</b>	<b>5.2%</b>	<b>7.7%</b>	<b>9.1%</b>	<b>9.4%</b>

### Fund Commentary

For the month of November, the Fund returned 1.8%<sup>1</sup> versus the Small Industrials which fell 1.1% and the Small Ordinaries which rose 1.8%. The resources sector, in which our fund does not invest, rose 7.4% during the month.

For the 12 months to November, the Fund has returned 62.4%<sup>1</sup> which is 20.8% above the Small Industrials, and 5.2% above the Small Ordinaries. The difference shows how hard the resource stocks have run, and is testament to the Fund's ability to perform notwithstanding this headwind.

While cyclical stocks remain of interest to us given the likely recovery, we are wary of stock prices running too hard ahead of the recovery in earnings. During the past 4-6 weeks, many companies are reporting improved outlooks, but with a delay, which has resulted in some of the lower quality stocks falling back quite quickly. From here, we see selective opportunities in mining services, financial services, media and industrial services as the economy strengthens into 2010 and 2011. A recent field trip to Perth and the North West Shelf certainly improved our confidence that the mining sector is recovering, the capex outlook is very strong, and labour markets are tightening quickly.

In the broader market, corporate activity is becoming an interesting theme of late, with AMP/AXA SA looking to take over AXA Asia Pacific, and an indicative proposal by Canadian pension funds to buy Transurban. This is expected to continue, and become topical in the smallcap sector. Potential acquirers now have far more confident boardrooms, better access to capital, and are faced with potential growth opportunities through smaller acquisitions.

Cyclical stocks aside, we are pleased that the majority of a recent strong performance has been driven by solid growth stocks, some of which were completely overlooked until recently. Our larger positions are in stocks which do not heavily rely on an economic recovery, such as REA Group, CSG Group, M2 Communications, Toxfree, which have all performed very well of late.

There is no change to our view on the outlook. Notwithstanding the market recovery so far, the Small Industrials index is still 45% from its high of November 2007, and the market remains highly prospective for stock pickers such as us, especially in a relatively uncrowded environment where many investors have left the sector scarred by last year's losses.

#### Key stock price moves

Key successes during November were Thinksmart (+36%), Sirtex (+18%), CSG Group (+15%), Specialty Fashion (+15%), and IOOF (+10%). The key detractors were DWS (-16%), Photon (-13%), WDS (-9%), Salmat (-9%) and Transfield Services (-8%).

<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> Since November 2004

<sup>3</sup> The Fund does not invest in resource stocks.

# Pengana Emerging Companies Fund

## November 2009 Update



2 of 2

### Portfolio information

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

### 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\$ 338m
<b>Inception Date</b>	1 November 2004	<b>Application Price at Month End</b>	A\$ 1.7188
<b>Identification Code(s)</b>	APIR PER0270AU ARSN 111 894 510	<b>Redemption Price at Month End</b>	A\$ 1.7086

### 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](http://www.pengana.com) or contact:

**Institutional Clients:** Denis Carroll, +61 2 8524 9974, [denis.carroll@pengana.com](mailto:denis.carroll@pengana.com)  
**Private Clients:** Juliet Dunworth, +61 2 8524 9984, [juliet.dunworth@pengana.com](mailto:juliet.dunworth@pengana.com)  
**Advisors & Retail Clients:** Justin Brooks, +61 3 8663 7906, [justin.brooks@pengana.com](mailto:justin.brooks@pengana.com)