

Pengana Global Small Companies Solution

December 2009 Update, by Greg Clarke



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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	Expected to 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\$27.3 million
Inception Date	November 2005	Application/ Redemption Price at Month End	Application: A\$0.6568 Redemption: A\$0.6516
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%	2.9%	5.5%	3.4%	3.3%	-3.2%	-1.3%	5.6%	27.2%
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 Fund underperformed the benchmark in December, returning 5.6%² versus the benchmark return of 6.3%. Contributing to underperformance was stock selection in re-bounding markets particularly in Europe and Japan.

December was a month of two halves with all risk assets sold off heavily after Dubai World asked for standstill agreement in regard to \$5bn debt rollover. All 'high risk' sovereign debt spreads widened especially Greece, Spain and Ireland. However stronger economic data from US and China caused the market to turn and grind higher into the end of the year. In what was probably the most positive sign of the year, the 'Big 3' US consumer banks repaid TARP, accompanied by large capital raisings.

In early January 2010, Yeoman Capital Management was appointed to manage Asian small companies. Yeoman is a boutique small company specialist with a value orientated bottom-up process, based in Singapore.

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

	1 Month	3 Months	1 Year	Financial YTD	Since Inception p.a. ⁴	Standard Deviation
Fund	5.6%	0.8%	27.2%	13.6%	-7.0%	19.8%
Benchmark	6.3%	0.1%	33.7%	13.6%	-6.9%	19.4%
North America	9.5%	4.8%	35.2%	18.7%	0.7%	22.7%
Benchmark	7.9%	3.5%	25.2%	23.0%	-3.8%	23.0%
Europe	4.0%	0.6%	45.1%	23.8%	-4.2%	25.9%
Benchmark	5.2%	2.0%	54.7%	25.1%	-1.5%	23.8%
Asia	5.0%	-7.6%	15.6%	-2.5%	-14.0%	25.8%
Benchmark	6.0%	-5.3%	19.7%	-5.8%	-16.7%	21.0%

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

² 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.

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

⁴ Inception: December 2005

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Fund Commentary (cont'd)

North America		
Manager	Cortina AM	Cortina outperformed for December returning 9.5% versus the portfolio's benchmark, the Russell 2000 Index of 8.1% ² . For the month, Technology, Consumer and Industrial stock-picking led the portfolio's performance. Specifically, in the Consumer Discretionary space, Skechers turned in very a strong performance on the back of the success of their Shape-Ups shoe line. In the Industrial sector, Newport Resources rallied as investors warmed to the improving fundamental story.
Benchmark	Russell 2000	
Fund Allocation	31.9%	
Month Return ²	9.5%	
Benchmark	7.9%	
Top 5 Positions		
2.9%	JDA Software Group	US small cap stocks finished 2009 on a strong point in December, rising 8.1%. For the year, the Russell 2000's return was 25.4% - quite a recovery considering what the economy has endured over the past 18 months. Lower quality (stocks of companies with lower returns on capital, higher relative debt balances and/or negative earnings) and smaller capitalization stocks returned to leadership in December following a higher quality recovery in October and November. For the year, micro caps and lower quality issues led the market.
2.7%	WMS Inds inc com	
2.5%	Skechers USA inc	
2.4%	Carter's inc	
2.2%	Skillssoft etc	
Cortina expect the low quality rally to mimic past cycles in which they lead the market for two to three quarters following a market bottom. Stocks of higher "quality" typically regain leadership at that point, and they continue to expect that transition to continue over the coming months.		

Europe (including UK)		
Manager	Munros CM	The portfolio delivered a strong return of 4.0% ² but underperformed the benchmark return of 5.2%. December saw a year end rally in Europe to leave the index up 54.7% over 2009 (in local currency terms). The upwards squeeze on prices was exacerbated by continuing low volumes on all European exchanges. The best performing European small cap markets in December included Denmark (+7.3%), France (+5.6%) and Norway (+5.3%). Portugal (+1.0%), Switzerland (+2.5%) and Belgium (+2.9%) underperformed the broader market but remained in positive territory.
Benchmark	HSBC Europe	
Fund Allocation	33.6%	
Month Return ²	4.0%	
Benchmark	5.2%	
Top 5 Positions		
5.1%	C & C Group	Shanks (+58.2%) rose on a possible takeover bid by private equity at £1.35 and IFG (+21.1%) rose on the announcement of an acquisition. In addition recovery stocks such as Kloeckner (+14.4%) and Wartsila (+13.0%) outperformed in a strong market environment. Hurting performance was Goals Soccer Centres (-22.4%), which fell on a small profit downgrade, although this was anticipated by investors.
4.6%	Ramirent	
3.4%	Shanks	
3.3%	Trevi	
3.2%	Ansaldo STS	
The portfolio's largest overweights include C&C Group (beverage and snack manufacturer and distributor), Ramirent (a machinery rental company), Shanks (waste management), Trevi (excavation) and Ansaldo STS (transportation technology).		

Asia (including Japan)		
Manager	Sparx AM	The portfolio delivered a return of 5.0% ² for December but underperformed a strong market return of 6.1%. The portfolio's lower exposure to export-oriented companies, which had primarily benefited from the weakness in the Yen against the USD, and some less liquid small-cap stocks were the main detractors from performance.
Benchmark	MSCI Japan Small	
Fund Allocation	17.4%	
Month Return ²	5.0%	
Benchmark	6.0%	
Top 5 Positions		
2.9%	Macromill	In the month of December, the Japanese equities markets bounced back after posting sharp declines in the previous month. Market selling pressure abated following a recovery in the overseas equities markets and Yen weakening against the USD. This was in part due to the government's response to the appreciation of the Yen and deflation.
2.8%	Message Co	
2.7%	Doshisha Co	
2.7%	SRA Holdings	
2.5%	SBS Holding	
Sparx believes that this year, there should be clearer signs of a Japanese economic recovery and that 2010 represents a year of action where the new government is expected to deliver on its campaign promises. They believe that stock selection rather than sector allocation will be crucial. There is a widening gap between those companies that are well-managed versus those that are not. A number of smaller companies with attractive long term growth potential are trading at cheap valuations particularly in housing and capital spending related industries.		

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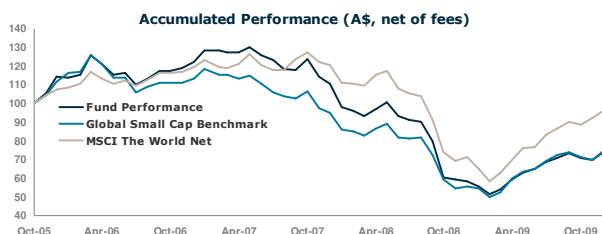
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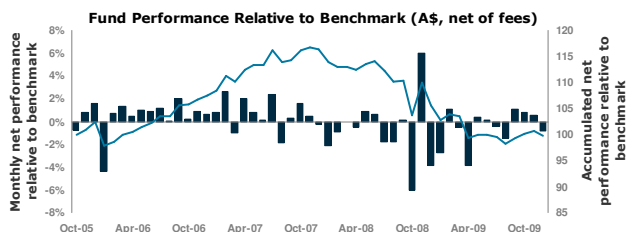


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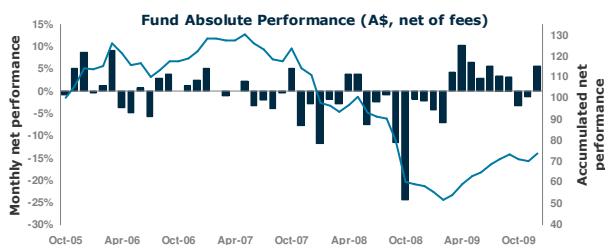
Accumulated Fund and Benchmark Performance ^{2,3}



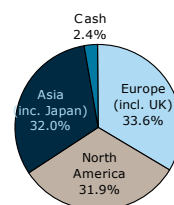
Monthly Fund Relative Performance ^{2,3}



Monthly Fund Absolute Performance ^{2,3}



Fund Allocation



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