

# Pengana Emerging Companies Fund

## January 2010 Update



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Australian Equities - Small Caps

### Fund Performance

Net performance for periods ending January 31 2010 <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>	-5.5%	0.3%	27.5%	63.8%	-2.0%	11.9%	14.7%
<b>S&amp;P/ASX Small Industrials Acc Index<sup>3</sup></b>	-5.4%	-2.4%	12.7%	44.8%	-12.2%	-0.3%	1.2%
<b>Outperformance</b>	<b>-0.1%</b>	<b>2.7%</b>	<b>14.8%</b>	<b>19.0%</b>	<b>10.2%</b>	<b>12.2%</b>	<b>13.5%</b>
<b>S&amp;P/ASX Small Ordinaries Acc Index</b>	-7.4%	-1.7%	8.5%	52.9%	-7.8%	4.2%	5.3%
<b>Outperformance</b>	<b>2.0%</b>	<b>2.0%</b>	<b>19.0%</b>	<b>10.9%</b>	<b>5.8%</b>	<b>7.8%</b>	<b>9.4%</b>

### Fund Commentary

The fund posted a negative return of 5.5%<sup>1</sup> in January, which was roughly in line with the Small Industrials Index and 2.0%<sup>1</sup> better than the 7.4% decline in the Small Ordinaries Index. For the 12 months to January, the fund has returned 63.8%<sup>1</sup> which is 19.0%<sup>1</sup> above the Small Industrials Index, and 10.9%<sup>1</sup> above the Small Ordinaries.

Global markets fell heavily during January driven by fears about the rate of recovery in the US economy, indications from the Obama administration about regulating the finance industry and moves by the Chinese government to restrict credit growth. Commodity markets were worst hit given their heavy reliance on the global economy. Such a retracement in markets is not a major shock given the unrelenting strength since the lows in March 2009. The Small Ordinaries had risen 93% from the lows, so an 11% pull-back from recent highs is understandable.

Within our sector, many of the stocks whose earnings are heavily tied to the corporate spending cycle (especially mining services) are reporting lower than expected activity, prior to an expected pick up in the coming 2-3 years. Thankfully we have avoided the majority of these situations, however a series of profit warnings has affected sentiment across the sector. On the flipside, stocks exposed to consumer spending, such as Flight Centre and Specialty Fashion are reporting strong underlying sales trends.

Our decision to take profits in many cyclical stocks later last year has protected us from some of the recent disappointments, and we remain wary of cyclical stocks where too much earnings recovery is already factored into valuations. Over the next six weeks most companies will report earnings and outlook statements. The majority of our stocks do not rely heavily on the strength of the economy, hence any further short term disappointment from economically sensitive stocks should not heavily impact us.

Overall there is no change to our outlook. Despite the market recovery so far, the Small Industrials index is still 46% below 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 losses in 2008.

#### Key stock price moves

Key successes during January were Navitas (+9%), WHK Group (+8%), VMG Group (+8%), Reckon (+7%), and Mitchell Communications (+4%). The key detractors were MacMillan Shakespeare (-26%), McPhersons (-18%), Sirtex (-17%), Transfield Services (-16%) and Carsales (-16%).

<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.

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### Portfolio information

Top 10 Positions (in alphabetical order)	
Asciano	M2 Communications
CSG Group	REA (realestate.com.au)
Customers	Slater & Gordon
IOOF	Toxfree
Mineral Resources	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\$ 343m
<b>Inception Date</b>	1 November 2004	<b>Application Price at Month End</b>	A\$ 1.6842
<b>Identification Code(s)</b>	APIR PER0270AU ARSN 111 894 510	<b>Redemption Price at Month End</b>	A\$ 1.6742

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