

Pengana Global Small Companies Solution

January 2010 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 and subject to High Water Mark) |
| 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\$26.8 million |
| Inception Date | November 2005 | Application/ Redemption Price at Month End | Application: A\$0.6434 Redemption: A\$0.6382 |
| 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 |
|------|--------|-------|-------|-------|-------|-------|-------|-------|--------|--------|-------|-------|--------|
| 2010 | -2.0% | | | | | | | | | | | | -2.0% |
| 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 marginally underperformed the benchmark in January, returning -2.0%² versus -1.9%. Contributing to underperformance was stock selection in US and Europe although this was offset to a large degree by positive stock selection in Asia.

The performance of equity markets in the opening month of this year is likely to be a foretaste of things to come. Positive news from corporate developments is likely to be counteracted by policy noises projected by nervous regulators who are torn between deflating asset bubbles on the one hand and preventing a confidence crisis on the other hand. We expect the battle of these two conflicting micro and macro forces to dominate markets for the first half of this year resulting in continued volatility.

Fund Performance to 31 January 2010 (A\$, net of fees)^{2,3}

| | 1 Month | 3 Months | 1 Year | Financial YTD | Since Inception p.a. ⁴ | Standard Deviation |
|----------------------|---------|----------|--------|---------------|-----------------------------------|--------------------|
| Fund | -2.0% | 2.0% | 30.2% | 11.3% | -7.3% | 19.4% |
| Benchmark | -1.9% | 2.3% | 33.2% | 11.5% | -4.7% | 19.3% |
| North America | -5.1% | 5.9% | 41.5% | 12.7% | -0.6% | 22.6% |
| Benchmark | -3.7% | 7.0% | 35.8% | 18.5% | -1.4% | 22.4% |
| Europe | 1.0% | 4.8% | 49.7% | 25.0% | -3.9% | 25.7% |
| Benchmark | 1.9% | 6.7% | 57.0% | 27.5% | -0.7% | 23.3% |
| Japan | -0.3% | -5.7% | 21.2% | -2.7% | -13.8% | 25.5% |
| Benchmark | -0.5% | -3.3% | 12.2% | -6.3% | -13.3% | 20.2% |
| Asia ex Japan | -1.8% | n/a | n/a | n/a | n/a | n/a |
| Benchmark | -7.2% | n/a | n/a | n/a | n/a | n/a |

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: November 2005

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Fund Commentary (cont'd)

| North America | | |
|---------------------------|------------------|--|
| Manager | Cortina AM | Cortina underperformed its benchmark in January, returning -5.1% versus the Russell 2000 which returned -3.7%. In January, laggards from 2009 far outpaced last year's strongest performing sectors. Financial services companies, which returned -8% in 2009 versus +27% for the small cap index, were the only winners in January with a 0.2% gain. Conversely, the technology sector reversed its 61% gain in 2009 with a dismal -6.3% decline in January. A similar reversal of fortune from 2009 to January 2010 was also seen in Energy, Materials and Producer Durables. |
| Benchmark | Russell 2000 | |
| Fund Allocation | 31.8% | |
| Month Return ² | -5.1% | |
| Benchmark | -3.7% | |
| | | |
| Top 5 Positions | | |
| 2.7% | JDA Software | The early read on the fourth quarter earnings season for small caps is mixed. Approximately 2/3 of companies are meeting analyst expectations while 1/3 are coming up short. By mid-year, investors should better understand the operating leverage inherent with each company's revenue recovery. Identifying companies with a greater incremental contribution to profits from increased sales is one of the opportunities in the New Year for our portfolio. The combination of increased volumes, pricing power and cost control management should affect a stock's performance in 2010 more so than sentiment driven swings between sectors and investment style preferences. |
| 2.6% | WMS Inds Inc Com | |
| 2.4% | Carters inc | |
| 2.3% | Skechers USA Inc | |
| 2.2% | Skillssoft Plc | |

| Europe (including UK) | | |
|---------------------------|-------------|--|
| Manager | Munros CM | Munros underperformed its benchmark in January returning 1.0% versus 1.9%. European equity markets began the year in confident fashion succumbing to profit taking in mid month as concerns grew about the Greek economy pushing the Euro lower. Volatility remains very high with significant day to day price movements in individual stocks. Norway (+5.0%), Denmark (+4.6%) and Finland (+4.5%) outperformed while Greece (-7.9%), Portugal (-3.6%) and Ireland (-1.3%) underperformed. |
| Benchmark | HSBC Europe | |
| Fund Allocation | 33.6% | |
| Month Return ² | 1.0% | |
| Benchmark | 1.9% | |
| | | |
| Top 5 Positions | | |
| 4.8% | C & C Group | Positive contributors to performance include Wartsila (+22.2%) which rose as the company posted solid 2009 figures, a good dividend and significant cost cutting programme, Sulzer (+11.0%) which rose on good order intake and Arysza (+10.6%) that was upgraded by two major Swiss broking houses. The stock has a dual quote in Switzerland and Ireland but is now increasingly being seen as a Swiss stock. Detractors included Moto Engil (-16.3%) hit by Portuguese market weakness. As a major infrastructure company, the stock is a geared play in the market as a whole. Tullow Oil (-11.5%) also retreated as the company raised £1 billion in a secondary placing however long term fundamentals remain excellent. |
| 4.8% | Ramirent | |
| 3.9% | IFG Group | |
| 3.5% | Trevi | |
| 3.3% | Ansaldo STS | |

| Japan | | |
|---------------------------|-------------------------|---|
| Manager | Sparx AM | The portfolio outperformed in January, returning -0.3% versus the MSCI Japan Small Cap Index of -0.5%. In the month of January, large-caps, which were strongly favoured towards the end of 2009, continued their advance until the middle of the month when investors turned jittery due to speculation that China may tighten its monetary policy. This news, combined with worries that the U.S. administration could introduce stricter bank regulations and an appreciation of the JPY sent shares downward. |
| Benchmark | MSCI Japan Small | |
| Fund Allocation | 16.9% | |
| Month Return ² | -0.3% | |
| Benchmark | -0.5% | |
| | | |
| Top 5 Positions | | |
| 2.4% | Macnica, Inc. | During the month Sparx started buying manufacturing related names, which they believe will record higher growth rates benefiting mainly from a pickup in overseas demand. Sparx believe that Japan's economic recovery will continue to support the stock market going forward. Additionally, they believe that Japan is attractive to foreign investors because of its relatively higher profit growth and cheap valuation. |
| 2.3% | Fujitsu General Limited | |
| 2.2% | JSP Corporation | |
| 2.2% | Askul Corporation | |
| 2.2% | Adeka Corporation | |
| | | Sparx investment strategy will be to focus on manufacturing companies that should benefit from stabilization in the commodity markets. Also, they are likely to consider investing in domestic related names that remain cheap particularly in the housing and retail sectors. |

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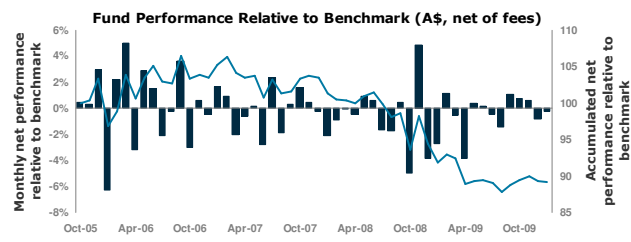
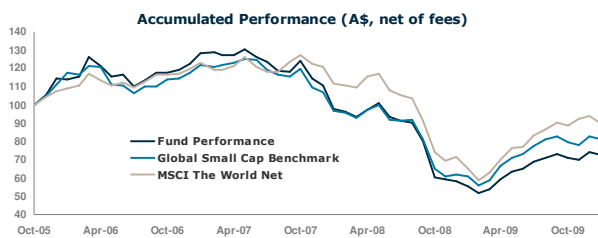
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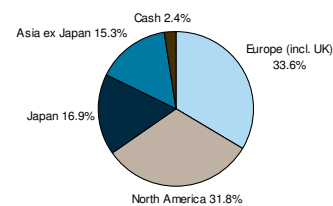
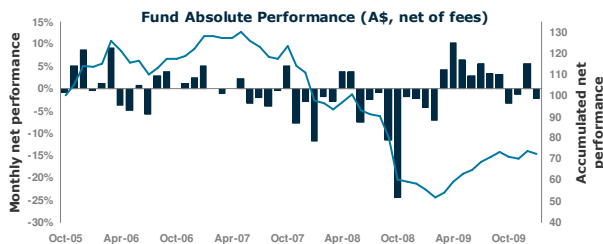


| Asia ex Japan | | |
|---------------------------|--------------------|--|
| Manager | Yeoman Capital | Yeoman outperformed its benchmark for January returning -1.8% versus the MSCI Asia ex-Japan Small Cap index return of -7.2%. Asian markets, both big and small cap segments, started the year with strong upward momentum carried over from the end of December 2009. However the upward movement grounded to a halt in the face of news of the Chinese government imposing credit curbs, President Obama's newly announced plans for further regulating the US banks, doubts about Dr Bernanke's re-appointment and negative economic news. Two stocks going against the general market trend were Kwang Sung Electronics in Hong Kong and KN Kenanga in Malaysia, which gained +66% and +43% respectively. The portfolio's top Asian holdings include retailers Oriental Watches and King Fook, computer distributor SIA International, Proton which manufactures, assembles, and sells motor vehicles and related products and Samudera Shipping Line Limited which owns and operates ocean-going ships. Regional Asian markets have now undergone almost two quarters of consolidation and recent price declines have brought many stocks back to almost August-September 2009 levels. The improved margin of safety and better risk/reward ratios are likely to provide good support to share prices. |
| Benchmark | MSCI Asia Small | |
| Fund Allocation | 15.3% | |
| Month Return ² | -1.8% | |
| Benchmark | -7.2% | |
| Top 5 Positions | | |
| 5.0% | Oriental Watch | |
| 4.0% | Sis International | |
| 3.7% | King Fook Holdings | |
| 3.5% | Proton Holdings | |
| 3.5% | Samudera Shipping | |

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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