

# Pengana Emerging Companies Fund

## February 2010 Update



PENGANA  
CAPITAL

Australian Equities - Small Caps

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### Fund Performance

Net performance for periods ending February 28 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>1</sup>
<b>Pengana Emerging Companies Fund</b>	1.8%	0.4%	16.0%	69.7%	-2.3%	12.6%	14.9%
<b>S&amp;P/ASX Small Industrials Acc Index <sup>1</sup></b>	0.9%	-0.5%	4.0%	62.9%	-12.0%	0.5%	1.4%
<b>Outperformance</b>	<b>0.9%</b>	<b>0.8%</b>	<b>12.0%</b>	<b>6.8%</b>	<b>9.7%</b>	<b>12.0%</b>	<b>13.5%</b>
<b>S&amp;P/ASX Small Ordinaries Acc Index</b>	-0.5%	-3.9%	1.5%	63.0%	-8.3%	4.3%	5.1%
<b>Outperformance</b>	<b>2.3%</b>	<b>4.3%</b>	<b>14.5%</b>	<b>6.7%</b>	<b>6.0%</b>	<b>8.3%</b>	<b>9.7%</b>

### Fund Commentary

The fund posted a return of 1.8%<sup>1</sup> in February, which was 0.9%<sup>1</sup> above the Small Industrials Index and 2.3%<sup>1</sup> better than the Small Ordinaries Index. For the 12 months to February, the fund has returned 69.7%<sup>1</sup> which is 6.8%<sup>1</sup> above the Small Industrials Index, and 6.7%<sup>1</sup> above the Small Ordinaries.

Global markets stabilised in February following the volatility in January driven by concerns over Greece and other heavily indebted countries. Domestically, markets were driven by company results released during the month. On the whole, results were reasonably positive, given that most of the stocks which had suffered earnings shortfalls had already confessed in January, which restricted the "surprise" factor in February.

The majority of our stocks produced strong results, with most not heavily exposed to the shorter term economic cycle. Of our top 10 holdings, all reported results which were in line or above expectations. Stocks such as REA Group (realestate.com.au), CSG Group (IT maintenance), Toxfree (industrial waste), M2 Communications (telecommunications), Mac Services (mining accommodation), and IOOF (financial services) posted solid growth.

The key area of disappointment seems confined to companies exposed to the mining services sector, where the expected recovery in construction activity is not yet translating into revenue growth due to delays. Thankfully, most of the stocks which we hold in that sector derive recurring income rather than short dated construction revenue, hence the issue was largely contained for us. Looking beyond the very short term, the outlook for the mining services sector is very strong with output in the oil & gas, iron ore, and coal sectors forecast to grow rapidly with new projects coming on stream.

During the past two months, we have directly contacted over 80 companies, which gives us a great breadth of understanding of current conditions, the outlook, and key risks to watch. As a result we have not made quantum changes to our portfolio, other than remaining vigilant on selling down stocks which are approaching our valuations.

Overall 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 February were DKN Group (+19%), Reject Shop (+15%), REA Group (+14%), M2 Communications (+14%), and Transfield Services (+13%). Key detractors were WDS (-60% - a small position thankfully), Probiotec (-31%), Sirtex (-10%), Skilled Engineering (-7%), and VMG Group (-7%).

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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\$ 354m
<b>Inception Date</b>	1 November 2004	<b>Application Price at Month End</b>	A\$ 1.7152
<b>Identification Code(s)</b>	APIR PER0270AU ARSN 111 894 510	<b>Redemption Price at Month End</b>	A\$ 1.7050

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