

Pengana Emerging Companies Fund

April 2010 Update



PENGANA
CAPITAL

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Australian Equities - Small Caps

Fund Performance

Net performance for periods ending April 30 2010 ¹							
	1 month	3 months	6 months	1 year	3 years p.a.	5 years p.a.	Since inception p.a. ¹
Pengana Emerging Companies Fund	-0.2%	8.7%	9.0%	60.5%	-2.6%	16.0%	15.8%
S&P/ASX Small Industrials Acc Index ¹	-0.2%	4.1%	1.6%	35.4%	-13.1%	2.5%	1.9%
Outperformance	0.0%	4.6%	7.5%	25.1%	10.6%	13.5%	13.9%
S&P/ASX Small Ordinaries Acc Index	0.0%	6.3%	4.5%	39.3%	-9.0%	7.2%	6.3%
Outperformance	-0.2%	2.4%	4.6%	21.2%	6.4%	8.8%	9.5%

Fund Commentary

The fund fell 0.2%¹ in April, which was roughly in line with the Small Industrials and Small Ordinaries Indices. For the 12 months to April, the fund has returned 60.5%¹ which is 25.1%¹ above the Small Industrials Index, and 21.2%¹ above the Small Ordinaries Index.

Markets were strong in the first part of April, however markets gave up these gains as concerns grew over the debt situation in Greece and other European countries. In China, recent interest rate increases and moves to curb speculative asset prices added to overall concerns over cyclical stocks. This trend has continued into May.

The Government's response to the Henry Review on taxation contained three primary recommendations - resources tax, increased superannuation allocation, and lower company tax. The resources sector, which we do not invest in, has reacted negatively to the tax changes. The flow on effect to industrial companies which service the resources sector which we can invest in is mixed. On one hand the new proposed tax regime encourages exploration and development (which is positive for some providers), but may encourage mine owners to own capital items rather than pay service providers who own capital gear (due to capital allowances against the new tax). There is a good chance the initial proposals are amended, however we believe our portfolio is largely insulated from the negative impacts if enacted.

The increased allocation to superannuation is a positive to many of the financial services companies which we own, while the 2% cut to the company tax rate is a small net positive to all listed companies who currently pay tax.

We mentioned in recent reports that we were nervous about the domestic retail sector and had sold down our positions in discretionary retailers. Our fears were based on higher interest rates and a lack of government hand-outs, and have proven well founded, with profit warnings from Fantastic Furniture and Clive Peeters following soft sales outcomes from Woolworths and Harvey Norman. Once the companies have all updated the market, we will be watching for opportunities as share prices weaken in quality stocks.

The shorter term volatility surrounding Greece and China etc reminds us that the economic outlook remains unclear. Hence our portfolio retains a relatively low exposure to stocks heavily reliant on the economy. The recent volatility has provided us with selective opportunities in stocks that have been irrationally sold down despite no change in their outlook.

Key stock price moves

Key successes during April were Matrix Composites (+16%), CSG Group (+15%), Mineral Resources (+12%), Paperlinx (+12%), ARB Corp (+9%), and Salmat (+8%). Negative contributors included Skilled Engineering (-14%), Customers (-12%), Asciano (-10%), and M2 Communications (-10%).

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Portfolio information

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

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

Style	Bottom up stock picker	Management Fees	1.3325%
Benchmark	S&P/ASX Small Ordinaries Accumulation Index	Performance Fees	20.5% of the performance above the Benchmark
Investors	Open	Fund Raising	Maximum of 0.5% of the Benchmark capitalisation
Minimum Initial Investment Amount	A\$25,000 (direct)	FUM at Month End	A\$ 395m
Inception Date	1 November 2004	Application Price at Month End	A\$ 1.8316
Identification Code(s)	APIR PER0270AU ARSN 111 894 510	Redemption Price at Month End	A\$ 1.8206

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