

# Pengana Global Small Companies Solution

## April 2010 Update, by Greg Clarke



1 of 3

### 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

<b>Style</b>	Multi manager investing in regional small company specialists	<b>Management Fees<sup>1</sup> (monthly)</b>	0.7688% p.a.
<b>Benchmark</b>	Equally weighted to the three major developed regions: North America, Europe including UK, and Asia including Japan	<b>Performance Fees<sup>1</sup> (quarterly)</b>	10.25% p.a. over benchmark hurdle (net of fees and subject to High Water Mark)
<b>Investors</b>	Open to Retail Clients	<b>Underlying Manager Costs</b>	Expected to be within the range of 0.5% p.a. to 1% p.a.
<b>Minimum Initial Investment Amount</b>	A\$25,000 (direct)	<b>AUM at Month End</b>	A\$29.0 million
<b>Inception Date</b>	November 2005	<b>Application/ Redemption Price at Month End</b>	Application: A\$0.7395 Redemption: A\$0.7337
<b>Identification Code</b>	ARSN 120 300 450		

### Fund Commentary

#### Fund Performance (A\$, net of fees)<sup>2,3</sup>

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2010	-2.0%	1.4%	8.5%	4.6%									12.6%
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 delivered a strong return of 4.6% and outperformed the benchmark return of 3.4% in April. The major contributor to performance was stock selection in Asia, with contributions also from Japan and Europe. The US portfolio underperformed its benchmark.

Markets have again performed strongly as a good first quarter earnings reporting season draws to a close. However, macroeconomic concerns have returned to centre stage with the recession revealing over-leveraged balance sheets of several European countries. The interconnected nature of today's global economy has turned local risks in Europe into very real risks for the worldwide economic recovery.

#### Fund Performance to 30 April 2010 (A\$, net of fees)<sup>2,3</sup>

	1 Month	3 Months	1 Year	Financial YTD	Since Inception p.a. <sup>4</sup>	Standard Deviation
<b>Fund</b>	4.6%	15.0%	40.2%	27.9%	-3.9%	21.0%
Benchmark	3.4%	13.2%	38.4%	26.9%	-5.1%	19.9%
<b>North America</b>	4.4%	16.1%	43.4%	30.9%	2.8%	22.3%
Benchmark	5.6%	19.0%	47.0%	41.0%	-0.8%	22.7%
<b>Europe</b>	2.0%	7.9%	47.3%	34.9%	-2.1%	25.3%
Benchmark	1.5%	7.9%	45.7%	37.6%	0.7%	23.2%
<b>Japan</b>	5.8%	18.8%	46.1%	15.5%	-9.7%	25.8%
Benchmark	3.3%	13.5%	25.3%	7.1%	-15.2%	20.8%
<b>Asia ex Japan</b>	9.7%	22.8%	n/a	n/a	n/a	n/a
Benchmark	2.6%	12.2%	n/a	n/a	n/a	n/a

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

<sup>2</sup> 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.

<sup>3</sup> The Fund's currency exposure was unhedged until 30 June 2007

<sup>4</sup> Inception: November 2005

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2 of 3

### Fund Commentary (cont'd)

North America		
Manager	Cortina AM	The US portfolio underperformed in April delivering a return of 4.4% versus another strong Russell 2000 return of 5.6%. The Russell 2000 has recorded its seventh best start of year ever in 2010.
Benchmark	Russell 2000	
Fund Allocation	32.6%	
Month Return <sup>2</sup>	4.4%	
Benchmark	5.6%	
Top 5 Positions		
0.83%	JDA Software Group	Consumer Discretionary and Financial stocks, first quarter leaders, were joined by Energy, Materials and Industrials in outperforming the index in April. Defensive groups like Healthcare, Utilities and Consumer Staples trailed the market in April as they did in the first quarter. Lower quality stocks, as defined by "money losing" companies, low returns on equity, low market capitalization and low stock prices led the market again in April, as they have all year.
0.77%	Copart, Inc.	
0.72%	Websense, Inc.	
0.72%	Graftech, Inc.	
0.65%	Psychiatric Solutions, Inc	
The "risk trade", has pushed the higher risk and lower quality names much farther and much faster than typical. In April, Healthcare stock selection was positive while Energy positions led the portfolio as they responded to robust activity in the natural gas shale fields in the US. Through the turmoil unfolding in Europe, higher risk, lower quality stocks should struggle to hold their year-to-date gains.		

Europe (including UK)		
Manager	Munros CM	The European portfolio returned 2.0% and outperformed the European small companies market, which returned 1.5%. Markets showed a positive return for April though this masked significant day to day volatility as investors fretted over the bailout package for the beleaguered Greek economy. The Euro weakened over the month reflecting fears that the Greek crisis could spread into Portugal, Spain and Italy. Ireland (+8.4%), Denmark (+4.3%) and France (+3.2%) outperformed. Greece (-11.4%), Portugal (-8.3%) and Spain (-2.3%) underperformed. The portfolio has no investments in Portugal and only one small holding in Greece, Hellenic Exchanges, which operates the Greek bourse.
Benchmark	HSBC Europe	
Fund Allocation	31.7%	
Month Return <sup>2</sup>	2.0%	
Benchmark	1.5%	
Top 5 Positions		
1.70%	C & C Group	Grafton (+15.0%) maintained its strong momentum from last month as anecdotal evidence points to a small improvement in UK demand. Kardex (+12.1%) rose as appetite for this Swiss microcap improved after months of underperformance. Recently purchased FL Smidth (+11.3%) rose as the company announced further new contract gains in emerging markets. Despite a positive statement from the Chairman, IFG (-13.7%) remains friendless. At the current price of EUR 1.20, the stock sells on a very modest 6.0x 2010 earnings.
1.65%	Ramirent	
1.07%	IFG Group	
1.05%	Trevi	
1.03%	Lamprell	

Japan		
Manager	Sparx AM	The Japanese portfolio outperformed the MSCI Japan Small Cap Index, delivering a return of 5.8% versus 3.3%. In the month of April, higher than expected upward earnings revisions by both Japanese and overseas corporations supported the Japanese equity market. This was partially offset by ongoing worries that other EU nations will experience creditworthiness problems similar to Greece; China's tightening of its monetary policy and some profit taking.
Benchmark	MSCI Japan Small	
Fund Allocation	16.1%	
Month Return <sup>2</sup>	5.8%	
Benchmark	3.3%	
Top 5 Positions		
0.43%	Meiwa Estate Company, Ltd	Driving performance were micro caps and lower liquidity stocks with price-to-book ratios (PBRs) below 1x. Japanese firms with a low PBR or those that have been laggards in recent months (regardless of their short-term earnings outlook) boosted the portfolio's performance. Stocks contributing to performance include Press Kogyo (truck steel <a href="#">manufacturer</a> ), Manica (specialised electronics manufacturer), Meiwa (property developer) and Bals Corp (retailer).
0.43%	Press Kogyo Co, Ltd.	
0.42%	Fujitsu General Limited	
0.41%	Bals Corporation	
0.39%	Saruga Bank Ltd.	
The portfolio continues to accumulate domestic-oriented names, which should benefit from an economic recovery in Japan.		

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Asia ex Japan	
Manager	Yeoman Capital
Benchmark	MSCI Asia Small
Fund Allocation	17.1%
Month Return <sup>2</sup>	9.7%
Benchmark	2.6%
<b>Top 5 Positions</b>	
0.89%	Oriental Watch
0.83%	Sis International
0.70%	King Fook
0.70%	Chen Hsong Holdings
0.68%	Samudera Shipping

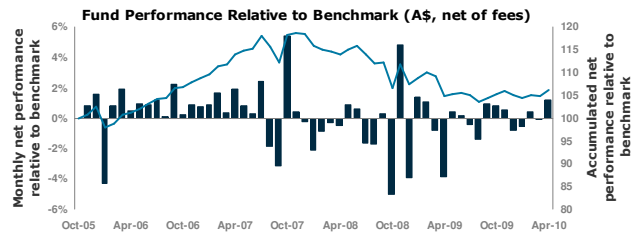
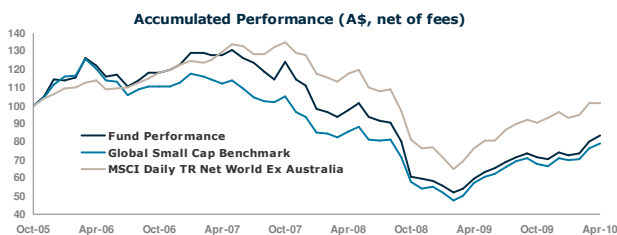
The Asian portfolio significantly outperformed the benchmark returning 9.7% versus 2.6% for the MSCI Asia Ex Japan Small Cap Index.

Driving the portfolio's performance was stock selection in Hong Kong and included media company Sing Tao News Corp which was up approximately 50% during the month, SIS International (computer distribution), Veeko International (apparel manufacturer) and King Fook (retailer).

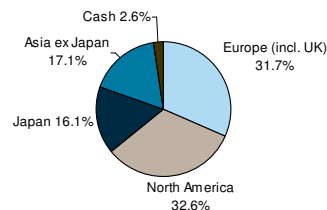
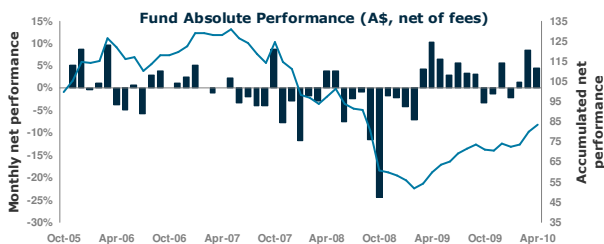
Despite lingering macroeconomic worries, Asian Pacific stock markets continued to inch upwards last month, in keeping with rising stock markets everywhere else around the world. Markets are again rattled by Greece however this is as much a reaction to the relentless rise of stock markets, as it is the fear of what Greece and the peripheral European nations might mean for Asia. While Asian stock markets have been pedestrian this year, largely driven by the fear of the impact of stimulus withdrawals and rate hikes, these may ultimately prove to be exaggerated.

The portfolio continues hold good quality undervalued business.

### Accumulated Fund and Benchmark Performance <sup>2,3</sup>      Monthly Fund Relative Performance <sup>2,3</sup>



### Monthly Fund Absolute Performance <sup>2,3</sup>      Fund Allocation



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