

# Pengana Global Small Companies Solution

## May 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

|  |   |   |  |
|--|---|---|--|
| <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\$26.7 million  |
| <b>Inception Date</b>                    | November 2005   | <b>Application/ Redemption Price at Month End</b> | Application: A\$0.6792<br>Redemption: A\$0.6738                                |
| <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%  | -8.2% |       |       |       |        |        |       |       | 3.4%   |
| 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 outperformed in May delivering -8.2% versus a weak benchmark return of -8.5%. May witnessed corrections across most asset classes as fears were compounded by the ongoing European debt crisis, public unrest in Greece & Thailand, geopolitical risks in Korea, and ongoing monetary tightening in the emerging markets.

Global equity markets underperformed as investors flocked to perceived "safe havens" with US 10-year Treasury yields falling to their lowest levels this year. The US dollar appreciated against major currencies and gold prices hit new highs, consistent with the theme of rising risk aversion. Asia small cap was the worst performing region, with Europe and US outperforming although strongly negative in absolute terms.

#### Fund Performance to 31 May 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>          | -8.2%   | 4.2%     | 20.9%  | 17.5%         | -5.4%                             | 21.1%              |
| Benchmark            | -8.5%   | 2.7%     | 19.5%  | 16.2%         | -6.8%                             | 20.0%              |
| <b>North America</b> | -6.2%   | 4.3%     | 27.3%  | 22.8%         | 1.3%                              | 22.3%              |
| Benchmark            | -7.7%   | 5.3%     | 31.9%  | 30.2%         | -2.5%                             | 22.8%              |
| <b>Europe</b>        | -7.3%   | 1.9%     | 25.3%  | 25.1%         | -3.6%                             | 25.3%              |
| Benchmark            | -7.4%   | 1.8%     | 26.9%  | 27.4%         | -1.0%                             | 23.2%              |
| <b>Japan</b>         | -8.5%   | 9.2%     | 17.5%  | 5.7%          | -11.3%                            | 25.8%              |
| Benchmark            | -9.9%   | 2.4%     | 3.7%   | -3.5%         | -16.8%                            | 21.0%              |
| <b>Asia ex Japan</b> | -9.7%   | 8.7%     | n/a    | n/a           | n/a                               | n/a                |
| Benchmark            | -10.7%  | -0.2%    | 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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| Fund Commentary (cont'd)     |                             |  |
|------------------------------|-----------------------------|--|
| <b>North America</b>         |                             |  |
| Manager                      | Cortina AM                  | The US portfolio outperformed in May delivering a return of -6.2% versus a falling Russell 2000 return of -7.7%. Volatility again reigns supreme with the Russell 2000 Index delivering its worst monthly decline since February 2009. Through May, the small cap index is down nearly 11% from its year-to-date high set in mid-April. Large caps fared worse than small caps in May due to their outsized exposure to worrisome foreign sales.   |
| Benchmark                    | Russell 2000                |  |
| Fund Allocation              | 32.9%                       |  |
| Month Return <sup>2</sup>    | -6.2%                       |  |
| Benchmark                    | -7.7%                       |  |
| <b>Top 5 Positions</b>       |                             |  |
| 0.85%                        | WMS Industries              | Poor quality companies fared worse in May and faced the greatest selling pressure. Out performance was primarily driven by exposure to higher quality growth stocks. These included NxtStage Medical (medical technology), vitacost.com (online retailing) and Commvault (information management). It now appears that the "bloom may now be off the rose" for high beta names.  |
| 0.82%                        | JDA Software Group          |  |
| 0.81%                        | Copart                      |  |
| 0.77%                        | Graftech International      |  |
| 0.74%                        | NxStage Medical             |  |
| <b>Europe (including UK)</b> |                             |  |
| Manager                      | Munros CM                   | The European portfolio performed in line with the European small cap market in May, falling -7.3% versus the benchmark return of -7.4%. European markets posted a weak result in May as investors' feared contagion from the Greek rescue package could move to other vulnerable European economies. The Euro remained under pressure throughout the month however Sterling rallied on the formation of a new coalition government whose prime task is to tackle the huge budget deficit. Belgium (-3.0%), Germany (-5.1%) and Portugal (-5.5%) outperformed while Ireland (-15.6%), Greece (-13.3%) and Spain (-12.3%) underperformed.  |
| Benchmark                    | HSBC Europe                 |  |
| Fund Allocation              | 30.9%                       |  |
| Month Return <sup>2</sup>    | -7.3%                       |  |
| Benchmark                    | -7.4%                       |  |
| <b>Top 5 Positions</b>       |                             |  |
| 1.60%                        | C & C Group                 | Rational (+3.2%) and Ipsos (+2.7%) both outperformed falling markets as figures exceeded expectations. Aberdeen Asset Management (+2.2%) outperformed despite the weak market environment due to excellent first half figures and a 14.2% rise in the interim dividend. The shares currently yield a very healthy 4.6%.<br><br>Recovery sensitive stocks Kloeckner (-22.6%), Tubacex (-17.5%) and Ramirent (-16.5%) underperformed the weak markets. Generally speaking, cyclical stocks underperformed while defensive stock outperformed. The portfolio remains well balanced between the two types of stocks.   |
| 1.45%                        | Ramirent                    |  |
| 1.11%                        | Trevi                       |  |
| 1.05%                        | Ipsos                       |  |
| 1.03%                        | Aberdeen Asset Management   |  |
| <b>Japan</b>                 |                             |  |
| Manager                      | Sparx AM                    | The Japanese portfolio outperformed a weak market returning -8.5% versus the benchmark return of -9.9%. In addition to fears that Greece's deficit-related concerns may spread to other European nations, news that China is planning to push forward property tax reform also weighed heavily on markets. Even a positive earnings announcement season which saw many upward earnings revisions could not buoy stocks as investors took the opportunity to sell and lock in profits. In particular, financial and real estate-related stocks fell sharply due to increased credit uncertainty. Domestic related names and technology firms with healthy earnings performed well.                        |
| Benchmark                    | MSCI Japan Small            |  |
| Fund Allocation              | 17.3%                       |  |
| Month Return <sup>2</sup>    | -8.5%                       |  |
| Benchmark                    | -9.9%                       |  |
| <b>Top 5 Positions</b>       |                             |  |
| 0.52%                        | Bals Corporation            | While credit related concerns in Europe, uncertainty of China's financial policies and Japan's political landscape all weigh on the markets, corporate earnings in Japan are recovering. In addition there are signs of improvement in consumer and capital spending and consequently the portfolio is investing in domestic-oriented firms tied to the pickup in consumer and housing demand. Going forward, weakness in the Chinese equity market will help increase the relative attractiveness of Japanese small-cap stocks and Japanese equities may rebound once anxiety about the global economies and Japan's political landscape abate and investors' return their focus to corporate earnings. |
| 0.47%                        | Fujitsu General Limited     |  |
| 0.40%                        | Saruga Bank Ltd.            |  |
| 0.39%                        | Yokowo Co. Ltd.             |  |
| 0.39%                        | Teraoka Seisakusho Co. Ltd. |  |

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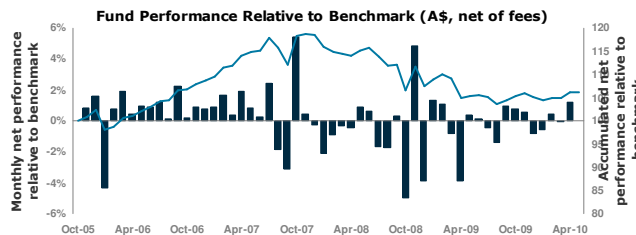
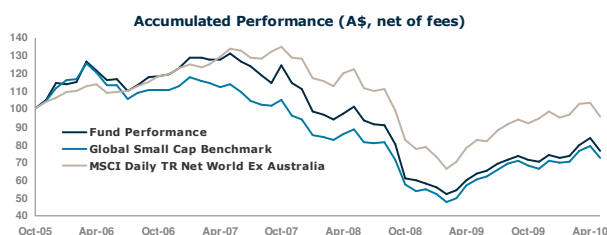
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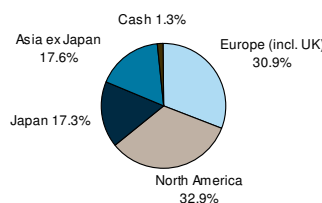
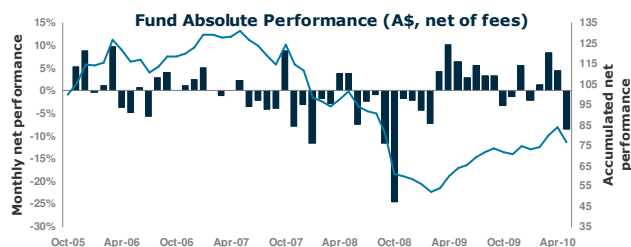


| Asia ex Japan             |                         | <p>The Asian portfolio outperformed a very weak Asian equity market returning -9.7% versus -10.7% for the MSCI Asia Ex Japan Small Cap Index. Contributing to performance were Thai stocks, Tropical Canning (cannery) and KGI Securities (broking) as well as Singapore based heavy equipment distributor, Kian Ann Engineering.</p> <p>In addition to global concerns regarding the European debt crisis, Asian markets were impacted by concerns that China, with its slew of recent property dampening measures, might result in an economic hard landing. The entire concoction of bearish events was made all the more potent with the additional mixture of heightened military tension between the North and South Korea over the sinking of a South Korean naval vessel.</p> <p>Fears that the Chinese authorities may unwittingly create an economic hard landing in their attempt to dampen property prices appear excessive. Markets have tended to under-estimate the pragmatism of the Chinese regulators in the past and their fine-tuning approach towards policy making which will avert an unintended runaway spiral. Taking a broader view of Asian market moves from the March 2009 low until now, the current drawdown is a natural correction of a magnitude that is not out of line with other major market up cycles. On a valuation basis Asian equities are now cheap, which reflects the fears of a China hard landing scenario.</p> |
|---------------------------|-------------------------|---|
| Manager                   | Yeoman Capital          |   |
| Benchmark                 | MSCI Asia Small         |   |
| Fund Allocation           | 17.6%                   |   |
| Month Return <sup>2</sup> | -9.7%                   |   |
| Benchmark                 | -10.8%                  |   |
| Top 5 Positions           |                         |   |
| 0.97%                     | Oriental Watch          |   |
| 0.86%                     | SIS International       |   |
| 0.69%                     | Tan Chong International |   |
| 0.69%                     | King Fook               |   |
| 0.69%                     | Proton Holdings         |   |

### 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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