

# Pengana Global Small Companies Solution

## June 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\$26.3 million
<b>Inception Date</b>	November 2005	<b>Application/ Redemption Price at Month End</b>	Application: A\$0.6695 Redemption: A\$0.6641
<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%	-8.4%	-1.4%							1.9%
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 June delivering -1.4%<sup>2</sup> versus a benchmark return of -3.0%. For the financial year ending 30 June 2010 the Fund outperformed the benchmark returning 15.8%<sup>2,3</sup> versus 12.7% for the benchmark. While tensions in the Euro area moderated slightly over the month, investor worries have rotated to the global growth outlook. Some softening in global indicators and a return to a fiscal austerity mindset resulted in continued weakness in equity markets and a rush into government bonds. While some countries have no choice but to slash spending and hike taxes (the European periphery) even countries that are not being forced by markets to consolidate are doing so anyway (U.K. and Germany). In the US, fiscal policy is also set to tighten significantly. While investors want to see that the authorities are serious about reining in budget deficits, there is also concern that fiscal consolidation may occur too early and derail a fragile global recovery.

#### Fund Performance to 30 June 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>	-1.4%	-5.4%	15.8%	15.8%	-5.8%	20.9%
Benchmark	-3.0%	-8.2%	12.7%	12.7%	-7.3%	19.9%
<b>North America</b>	-5.3%	-7.3%	16.3%	16.3%	0.1%	22.3%
Benchmark	-7.9%	-10.2%	19.9%	19.9%	-4.2%	22.9%
<b>Europe</b>	0.5%	-4.9%	25.8%	25.8%	-3.5%	25.0%
Benchmark	-0.9%	-6.9%	26.2%	26.2%	-1.1%	23.0%
<b>Japan</b>	-4.4%	-7.4%	1.1%	1.1%	-11.9%	25.7%
Benchmark	-2.4%	-9.1%	-5.8%	-5.8%	-17.0%	20.8%
<b>Asia ex Japan</b>	3.5%	2.5%	n/a	n/a	n/a	n/a
Benchmark	1.9%	-6.7%	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 a weak market in June delivering -5.3% <sup>2</sup> . After posting a -7.6% <sup>2</sup> return in May, the Russell 2000 Index of small cap stocks dropped another -7.9% in June. The 2nd quarter return of -9.9% is the worst spring quarter on record for the index however small caps fared better than the Russell 1000 large cap decline of -11.4% for the quarter.
Benchmark	Russell 2000	
Fund Allocation	32.0%	
Month Return <sup>2</sup>	-5.3%	
Benchmark	-7.9%	
<b>Top 5 Positions</b>		
0.85%	WMS Industries	The most economically sensitive sectors fared the worst. Consumer discretionary stocks declined almost -14% as job growth, excluding census workers, disappointed investors. Materials and processing stocks declined -10% as double-dip recession fears increased and Durables and Energy fared poorly for both reasons. In classic fashion, utilities and staples weathered the storm. In June, high quality stocks fared the best by a wide margin.
0.84%	Copart	
0.79%	NxStage Medical	
0.79%	Crocs	
0.75%	Comtech Telecom.	
<b>Europe (including UK)</b>		
Manager	Munros CM	The European portfolio outperformed strongly in June returning 0.6% <sup>2</sup> in a falling market that delivered -0.9%. After a solid recovery in the early part of the month, European equity markets retreated in the final trading days as doubts persisted on the strength and durability of the recovery. The Euro remained under pressure over the month as concerns continued on the viability of the single currency given the deficit problems of Greece, Spain and other Latin economies.
Benchmark	HSBC Europe	
Fund Allocation	31.9%	
Month Return <sup>2</sup>	0.5%	
Benchmark	-0.9%	
<b>Top 5 Positions</b>		
1.64%	C & C Group	Portugal (+2.0%), Germany (+0.5%) and both Finland and Ireland were relatively flat for the month and outperformed on a relative basis. Norway (-7.9%), Greece (-6.6%) and Denmark (-3.6%) were the worst performing European markets. On a company basis, Aryzta (speciality food) rose as it announced further accretive acquisitions in the USA and positive guidance on earnings. IFG (financial advisory) rose as most of the selling post the open offer earlier in the year has now come to an end. Based on realistic earnings guidance of 18-20 cents for the current year the shares at a very undemanding 6x earnings. Grafton (retail building supplies) fell as investors fretted over the possibility of a double dip recession in the UK, the company's major market. Hellenic Exchanges (-12.3%) followed the Greek market down.
1.42%	Ramirent	
1.13%	VT Group	
1.10%	IFG	
1.08%	Trevi	
<b>Japan</b>		
Manager	Sparx AM	The Japanese portfolio underperformed returning -4.4% <sup>2</sup> versus -2.4% for MSCI Japan Small Cap Index. The Japanese equity market continued its downward trend in June on concerns over Europe's debt crisis. At one point in the middle of the month, the equity market rose, however, investors were again prompted to shun stocks after weaker than-expected economic reports from the US. Large-cap stocks underperformed smaller cap stocks on the back of the global economic slowdown and the gain in the value of the Yen against both the USD and Euro.
Benchmark	MSCI Japan Small	
Fund Allocation	16.6%	
Month Return <sup>2</sup>	-4.4%	
Benchmark	-2.4%	
<b>Top 5 Positions</b>		
0.41%	Elecom Co. Ltd.	Stocks with weaker earnings negatively impacted the Fund's performance. Also weighing on performance were the electronic parts makers, which had surged sharply in recent months but retraced this month on fears about a slowdown in demand. On the other hand, firms in the service sector performed well.  Due to currency risks and worries about the U.S. and Eurozone economies, domestic-oriented names should perform well on a relative basis as they are tied to the pickup in consumer and housing demand. The portfolio is also likely to invest in those exporters which are oversold but remain competitive in their respective markets.
0.40%	Bals Corporation	
0.38%	Nippon Chemi-Con Corp.	
0.37%	Saruga Bank Ltd.	
0.36%	Toshin Group Co. Ltd.	

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Asia ex Japan	
Manager	Yeoman Capital
Benchmark	MSCI Asia Small
Fund Allocation	17.8%
Month Return <sup>2</sup>	3.5%
Benchmark	1.9%
Top 5 Positions	
1.06%	Oriental Watch
0.94%	SIS International
0.83%	King Fook Holdings
0.76%	Chen Hsong Holdings
0.74%	Samudera Shipping

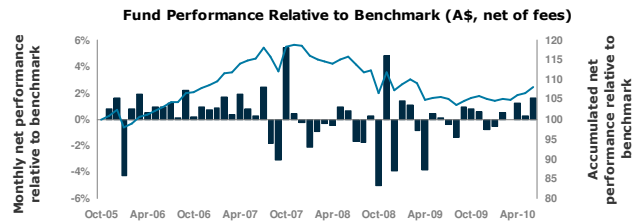
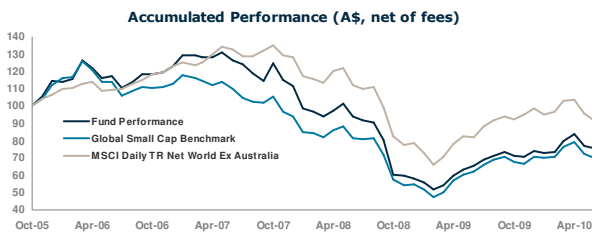
The Asian portfolio performed strongly in June returning 3.5%<sup>2</sup> beating the MSCI Asia ex-Japan Small Cap index return of 1.9%. The second quarter has been one to forget for Asian equity markets. Overall they have made a healthy recovery albeit on modest volumes and not without considerable volatility.

Europe has been relegated in the pecking order of Asian investors' concerns, and attention has been turned to China. The most significant news this month is the announcement to end the Renminbi's effective peg to the dollar, reverting henceforth to a more flexible exchange rate policy pegged to a basket of currencies. The move was no doubt aimed at averting trade wars and appeasing G20 leaders. Regardless, this initiative is positive, and the Chinese government is signalling its thinking on two fronts. Firstly, they are expressing their confidence in domestic and global (i.e. export) growth and secondly, it implicitly means interest rate hikes are over.

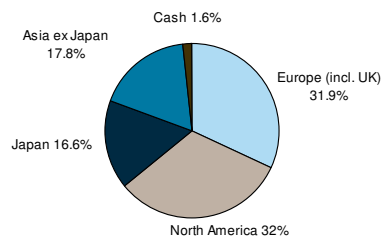
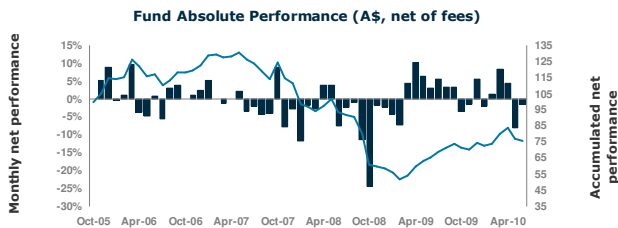
Stocks that contributed to performance include Hong Kong based media company, Sing Tao News, Thai food company, Tropical Canning and office equipment supplier, Sunway International. Top holdings include Oriental Watches, SIS International and King Fook.

Growing double dip talk may keep investors on the sidelines, but there is no denying the fact that Asia has a solid investment case that has become attractively priced again by the end of the second quarter.

### 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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