

Pengana Emerging Companies Fund

July 2010 Update



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Fund Performance

Net performance for periods ending July 31 2010 ¹							
	1 month	3 months	6 months	1 year	3 years p.a.	5 years p.a.	Since inception p.a. ²
Pengana Emerging Companies Fund	4.2%	-4.9%	3.4%	31.9%	-7.3%	12.7%	14.0%
S&P/ASX Small Industrials Acc Index ³	4.9%	-8.4%	-4.6%	7.5%	-16.4%	-1.5%	0.3%
Outperformance	-0.7%	3.5%	8.1%	24.4%	9.1%	14.3%	13.8%
S&P/ASX Small Ordinaries Acc Index	5.2%	-7.0%	-1.1%	7.3%	-12.4%	3.0%	4.6%
Outperformance	-1.1%	2.1%	4.5%	24.6%	5.1%	9.7%	9.4%

Fund Commentary

Markets recovered in July following a volatile two months, with the ASX S&P 200 up 4.5% and the Small Ordinaries up 5.2%. The short term bounce was driven by a sense that the risks on European banks had somewhat abated and signs that the US economy may not be heading towards another recession.

Over the month the Fund rose 4.2%¹, which was 1.1% below the Small Ordinaries Index and 0.7% below the Small Industrials Index. For the 12 months to July, the Fund has returned 31.9%¹ which is 24.6%¹ above the Small Ordinaries Index and 24.4%¹ above the Small Industrials Index.

July is typically a quiet month in the Australian equity market as most companies are in "blackout" prior to the release of full year results in August. Some results have been released, and generally speaking have been reasonable, however outlook comments are still tempered given the uncertainties. The upcoming election will also distract investors in relation to the NBN, resources taxation, superannuation reform etc. where policy differences exist.

The flurry of takeover activity in industrial smallcap stocks continues following the six deals announced in May. We have seen bids for AWB Ltd, Mitchell Communication and Redflex since May, and suggest that this may prove an ongoing theme over the next 6-12 months. Private equity has access to debt markets again, and corporates are well funded following last year's capital raisings. To illustrate, the S&P500 in the US is currently sitting on over \$900bn in cash, which is up 26% on last year. With interest rates at all time lows, this excess cash is bound to be deployed now that confidence has improved somewhat.

Valuations remain at quite cheap levels however this is only appealing if the earnings forecasts are achieved. Given the risks surrounding global economies we still prefer to be heavily weighted to stocks which do not primarily rely on the economy to grow earnings.

Key stock price moves

Key successes during July were Mitchell Communications (+40%), Vita Group (+25%). VDM Group (+17%), Macmillan Shakespeare (+16%), M2 Communications (+15%), and Mac Services (+13%). Detractors included Slater & Gordon (-9%), Thinksmart (-7%), Flexigroup (-7%), REA Group (-4%), Talent 2 (-4%) and Customers (-3%).

¹ Net performance figures are shown after all fees and expenses and assume reinvestment of distributions. Past performance is not a reliable indicator of future performance, the value of investments can go up and down.

² Since November 2004

³ The Fund does not invest in resource stocks

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Portfolio information

Top 10 Positions (in alphabetical order)

CSG Group	Mineral Resources
IOOF	M2 Communications
Kathmandu	REA (realestate.com.au)
MacMillan Shakespeare	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\$ 389m
Inception Date	1 November 2004	Application Price at Month End	A\$ 1.7330
Identification Code(s)	APIR PER0270AU ARSN 111 894 510	Redemption Price at Month End	A\$ 1.7226

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