

# Pengana Global Small Companies Solution

## July 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\$27.3 million
<b>Inception Date</b>	November 2005	<b>Application/ Redemption Price at Month End</b>	Application: A\$0.6976 Redemption: A\$0.6920
<b>Identification Code</b>	ARSN 120 300 450		

### Fund Commentary

<b>Fund Performance (A\$, net of fees) <sup>2,3</sup></b>													
	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%	4.2%						6.2%
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 underperformed in July, delivering a solid 4.2% but underperforming a recovering small cap equity return of 4.8%. Driving performance for the month was stock selection in the US where the portfolio failed to keep pace with the strong rally in US stocks. For the calendar year to date, the Fund has delivered a return of 6.2% against the benchmark return of 3.8%.

While global economic data remained mixed in July, corporate earnings reports defied global investor pessimism delivering better than expected results. In response investors' motivations once again moved towards risk taking driving up global equity markets.

<b>Fund Performance to 31 July 2010 (A\$, net of fees) <sup>2,3</sup></b>						
	1 Month	3 Months	1 Year	Financial YTD	Since Inception p.a. <sup>4</sup>	Standard Deviation
<b>Fund</b>	4.2%	-5.7%	14.3%	4.2%	-4.9%	20.8%
Benchmark	4.8%	-6.9%	11.5%	4.8%	-6.3%	19.9%
<b>North America</b>	0.7%	-10.5%	7.6%	0.7%	0.3%	22.1%
Benchmark	6.8%	-9.2%	16.9%	6.8%	-2.8%	22.9%
<b>Europe</b>	5.1%	-2.1%	24.6%	5.1%	-2.4%	24.9%
Benchmark	5.2%	-3.5%	23.9%	5.2%	-0.1%	23.0%
<b>Japan</b>	-0.5%	-13.0%	-3.9%	-0.5%	-11.8%	25.4%
Benchmark	-0.9%	-12.8%	-7.7%	-0.9%	-16.9%	20.7%
<b>Asia ex Japan</b>	8.6%	1.4%	n/a	8.6%	n/a	n/a
Benchmark	5.7%	-3.9%	n/a	5.7%	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)

#### North America

Manager	Cortina AM	The US portfolio returned 0.7% in July and significantly trailed the strongly rebounding Russell 2000 Index return of 6.8%. The impressive return for the Russell 2000 in July followed the worst second quarter ever recorded by the index.  With macro and micro economic data providing mixed signals for an extended period, the driving motivation for investors has toggled from fear to greed several times in 2010. In periods of fear (like June), stocks with steady performance and a focus on long term value creation were favored. However in periods of greed (like July), meeting expectations has led to indifference and investing for the future or experiencing short term stumbles has been met with disdain.
Benchmark	Russell 2000	
Fund Allocation	30.3%	
Month Return <sup>2</sup>	0.7%	
Benchmark	6.8%	
<b>Top 5 Positions</b>		Quality growth companies (such as those in the portfolio) with solid though unsurprising results traded sideways to slightly higher, underperforming the strong index advance. Compounding this was a number of company specific issues that challenged some of portfolio's holdings. These ranged from changes in government reimbursement for healthcare companies to sales force changes at software companies. In almost all of the cases, the near term challenges have not affected the manager's investment thesis for the company. In only one case is the company (Comtech) experiencing a long term setback.
0.90%	Crocs	
0.89%	WMS Industries	
0.80%	Copart	
0.73%	CommVault Systems	
0.73%	NxStage Medical	

#### Europe (including UK)

Manager	Munros CM	The European portfolio marginally underperformed a strongly performing European small companies market in July, returning 5.1% versus the benchmarks return of 5.2%. Markets recovered strongly from the June setback as European economic and corporate earnings news proved to be supportive of equity values. In addition the Euro stabilised after months of weakness giving the markets a more solid foundation.  On a country basis, Greece (+25.1%), Finland (+9.7%) and Spain (+7.5%) outperformed while Netherlands (+2.2%), Belgium (+2.9%) and Switzerland (+3.1%) underperformed but still delivered positive returns. On an individual stock basis Leoni (auto parts) rose as European auto sales recovered from recent depressed levels. Hellenic Exchanges outperformed a strongly recovering Greek equity market. Also oil related companies, Lamprell and Tullow rose as sentiment improved for the sector following capping of a leaking well in the Gulf of Mexico.
Benchmark	HSBC Europe	
Fund Allocation	33.5%	
Month Return <sup>2</sup>	5.1%	
Benchmark	5.2%	
<b>Top 5 Positions</b>		On the negative side micro caps remain friendless. Goals Soccer Centres and Kardex (storage systems) both fell on marginally negative news. On this basis the portfolio will avoid new purchases in this area.
1.69%	C & C Group	
1.65%	Ramirent	
1.33%	Lamprell	
1.12%	Trevi	
1.11%	Ipsos	

#### Japan

Manager	Sparx AM	Following on from June, the Japanese equity market remained volatile in July. Driving volatility were concerns relating to the global economy and the Democratic Party of Japan's heavy defeat in the upper house parliamentary elections. As for the currency markets, the Yen appreciation against the USD and a halt in the EUR's decline, supported the performance of Japanese exporters, which had underperformed until last month. As a result, large-caps posted a positive return.  In this environment, the Japanese portfolio outperformed during the month returning -0.5% versus the MSCI Japan Small Cap Index of -0.9%. Names that underperformed until last month rebounded and boosted the Fund's performance. These included Honey's (apparel retailer), Fujitsu General (telecommunication equipment) and Japan Wind Development (alternative power generation). Meanwhile, domestic-oriented companies which posted results that reflected a delay in the recovery of their earnings for the fiscal first quarter ended June 2010 detracted from performance.
Benchmark	MSCI Japan Small	
Fund Allocation	16.2%	
Month Return <sup>2</sup>	-0.5%	
Benchmark	-0.9%	
<b>Top 5 Positions</b>		With a recovery in earnings in Japan, wages should increase and employment conditions improve, which is likely to bring a recovery in Japanese consumer spending.
0.40%	NPC Inc.	
0.37%	Fujitsu General Ltd.	
0.37%	Macnica Inc.	
0.35%	Saruga Bank Ltd.	
0.35%	Honeys Co. Ltd.	

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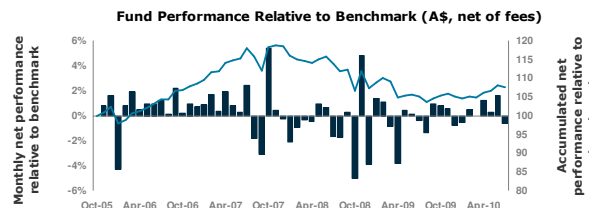
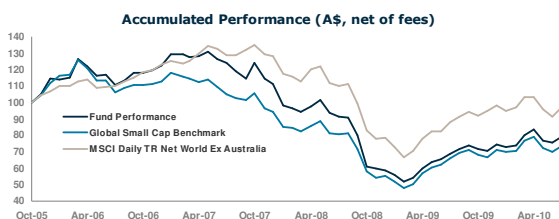
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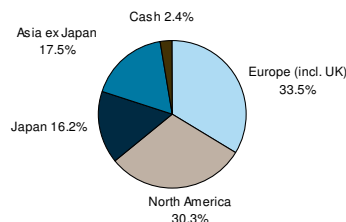
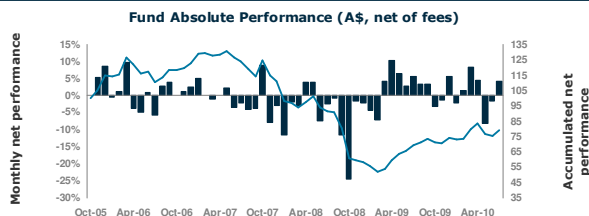
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Asia ex Japan	
Manager	Yeoman Capital
Benchmark	MSCI Asia Small
Fund Allocation	17.5%
Month Return <sup>2</sup>	8.6%
Benchmark	5.7%
<p>The Asian portfolio significantly outperformed in July, delivering a return of 8.6% as compared with the MSCI Asia ex Japan Small Cap Index return of 5.7%.</p> <p>Even as fears of a double dip recession lingered on the minds of investors, a number of portfolio holdings across the region were re-rated strongly during the month. In July, eight of the portfolio's HK companies reported full year results. All delivered excellent results with five reporting higher sales, six reporting higher profits and seven reporting higher dividend payments.</p> <p>On the back of strong price pickup, the portfolio's holdings in Sing Tao News (a news and publishing company) and Veeko International (a fashion retailer) were sold after substantial price appreciation. Following a recent trip to Korea by the investment team, some of the proceeds from the sales will be invested into Korea where there appear to be a number of undervalued quality companies.</p> <p>While many macro strategists have suggested that emerging markets especially Asia should "weather the storm" particularly well it is not just large Asian stocks but undervalued smaller Asia based companies (such as those in the portfolio) that have the potential to perform well.</p>	
Top 5 Positions	
1.07%	Oriental Watch
0.92%	Moiselle International
0.86%	SIS International
0.78%	King Fook Holdings
0.68%	Chen Hsong 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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