

Pengana Emerging Companies Fund

August 2010 Update



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Australian Equities - Small Caps

Fund Performance

Net performance for periods ending August 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	0.2%	3.1%	1.8%	18.0%	-5.5%	11.7%	13.9%
S&P/ASX Small Industrials Acc Index ³	1.4%	1.0%	-4.2%	-0.3%	-15.2%	-2.1%	0.5%
Outperformance	-1.2%	2.1%	5.9%	18.4%	9.7%	13.8%	13.4%
S&P/ASX Small Ordinaries Acc Index	1.8%	3.1%	1.2%	2.7%	-10.7%	2.5%	4.9%
Outperformance	-1.6%	0.0%	0.6%	15.4%	5.3%	9.2%	9.0%

Fund Commentary

Markets consolidated over August posting only small gains. The Fund was up 0.2%¹ compared with the Small Industrials Index up 1.4% and the Small Ordinaries Index up 1.8%. Whilst the market and the Fund delivered relatively flat outcomes for August there was considerable volatility in share prices as profits were released during the bi-annual reporting season. Over the last year the fund has risen by 18%¹ compared to a small rise in the Small Ordinaries Index and a small fall in the Small Industrials Index.

A key theme to emerge from the reporting season was the relative strength of profit margins. This is a reasonable outcome given the muted revenue growth reported, as last year's government sponsored stimulus handouts have faded from the economy. The margin strength has largely resulted from the actions of management through the GFC when they aggressively slashed costs to ride out the downturn. The benefits of this operating leverage should continue as the economy fully recovers in years to come. Another highlight from the results season was the increasing level of dividends been paid. As balance sheets have been repaired and management's confidence of the future improved many companies have increased their dividend payout ratios.

Politics in Australia has been the centre of attention over much of August. We now know that The Labor Party will form a minority government. This will mean the introduction of the revised Mineral Resources Rent Tax, the roll out of the National Broadband Network and a potential move towards carbon pricing. However the combination of the slim majority in the House of Representatives and the large representation of the Greens in the Senate is likely to mean there will be changes to this proposed legislation. A key implication of the election result will unfortunately be a level of heightened uncertainty.

The reporting season was generally very kind for the Fund with Matrix Composites, McMillan Shakespeare, Mineral Resources and Breville Group being the pick of the results, all delivering results well above what analysts had expected.

Key stock price moves

Key successes during August were Matrix Composites (+57%), ARB Corp (+21%), DWS Advanced (+20%) and McMillan Shakespeare (+10%). Detractors included Photon (-90%), Thinksmart (-29%), Kathmandu (-22%), APN News and Media (-10%) and CSG Group (-8%). We had been selling our small position in Photon before the shares went into trading halt following a blow-out in previously undisclosed earn out liabilities. The situation ended in a deeply dilutive capital raising and the Executive Chairman leaving the company. We have since exited the stock, and, while disappointing, the event did not have a meaningful impact on performance.

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	Resmed
Mac Services	Slater & Gordon

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\$ 402m
Inception Date	1 November 2004	Application Price at Month End	A\$ 1.7368
Identification Code(s)	APIR PER0270AU ARSN 111 894 510	Redemption Price at Month End	A\$ 1.7264

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