

Pengana Global Small Companies Solution

August 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

Style	Multi manager investing in regional small company specialists	Management Fees ¹ (monthly)	0.7688% p.a.
Benchmark	Equally weighted to the three major developed regions: North America, Europe including UK, and Asia including Japan	Performance Fees ¹ (quarterly)	10.25% p.a. over benchmark hurdle (net of fees and subject to High Water Mark)
Investors	Open to Retail Clients	Underlying Manager Costs	Expected to be within the range of 0.5% p.a. to 1% p.a.
Minimum Initial Investment Amount	A\$25,000 (direct)	AUM at Month End	A\$26.4 million
Inception Date	November 2005	Application/ Redemption Price at Month End	Application: A\$0.6779 Redemption: A\$0.6725
Identification Code	ARSN 120 300 450		

Fund Commentary

	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%	-2.8%					3.2%
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 delivered a return of -2.8% for the month and outperformed the benchmark return of -4.0%. Driving performance was stock selection in both US and Asian portfolios.

The stock market continues to churn through rapid-fire bouts of good and bad economic news at what seems to be an accelerating rate. Just as earnings optimism in July fuelled speculative market gains, double-dip recession fears frightened investors in August. The stock market's mental tug-of-war between capital appreciation and preservation shows no end, even though public companies have significantly improved their competitive and financial positioning since the downturn began in 2007.

	1 Month	3 Months	1 Year	Financial YTD	Since Inception p.a. ⁴	Standard Deviation
Fund	-2.8%	-0.2%	7.5%	1.3%	-5.3%	20.7%
Benchmark	-4.0%	-2.4%	2.1%	0.6%	-6.9%	19.8%
North America	-3.2%	-7.7%	5.0%	-2.5%	-0.4%	21.9%
Benchmark	-7.5%	-9.0%	5.2%	-1.2%	-4.3%	23.0%
Europe	-3.7%	1.7%	10.0%	1.2%	-3.1%	24.8%
Benchmark	-1.8%	2.3%	11.9%	3.3%	-0.4%	22.8%
Japan	-8.6%	-13.0%	-14.6%	-9.1%	-13.3%	25.4%
Benchmark	-5.2%	-8.2%	-14.9%	-6.0%	-17.5%	20.5%
Asia ex Japan	1.6%	14.2%	n/a	10.3%	n/a	n/a
Benchmark	-0.3%	7.4%	n/a	5.4%	n/a	n/a

¹ Including GST less any reduced tax input credits. Please refer to the Product Disclosure Statement for a more detailed explanation.

² 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.

³ The Fund's currency exposure was unhedged until 30 June 2007

⁴ Inception: November 2005

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Fund Commentary (cont'd)

North America

Manager	Cortina AM	<p>The US portfolio significantly outperformed the Russell 2000 Index return of -7.5%, delivering -3.2%. There were several reasons for the magnitude of the monthly outperformance in August. Firstly, the portfolio rebounded from significant underperformance in July when high beta micro cap names soared and quality franchise companies either took a breather after a very strong 2nd quarter or were dealt macroeconomic blows from several regulatory policy shifts. Secondly, a genuine flight to quality unfolded in August where non-earning companies rightfully caught investor angst. Low quality stocks led the market lower in August by a wide margin. Thirdly, several stock-specific challenges in July reversed course in August. CommVault Systems was the notable standout as investors rapidly checked their frustration with management's sales force realignment once a bidding war broke out for 3Par. The stunning battle of Dell vs. HP for a small cap storage company forced myopic CommVault investors to appreciate its unique competitive positioning. Fourthly, several portfolio companies reported standout quarterly earnings gains that far exceeded investor expectations</p> <p>During this period it is important for the portfolio managers to remain focused on shareholder value creation within each company and not get bogged down by the top-down, macro driven tug-of-war that is driving short-term price fluctuations.</p>
Benchmark	Russell 2000	
Fund Allocation	30.3%	
Month Return ²	-3.2%	
Benchmark	-7.5%	
Top 5 Positions		
1.01%	CommVault Systems	
0.91%	Crocs	
0.85%	WMS Industries	
0.75%	NxStage Medical	
0.75%	Copart	

Europe (including UK)

Manager	Munros CM	<p>The European portfolio underperformed in August returning -3.7% versus -1.8% for the benchmark. European markets fell over the month as global economic news disappointed leading to renewed doubts about the sustainability of the global recovery. The best performing markets were Belgium (0%), Portugal (-0.4%) while the UK (-0.7%) while Greece (-10.8%), Denmark (-6.0%) and Ireland (-5.4%) all underperformed.</p> <p>Even by normal standards, volumes were extremely thin leading to exaggerated price movements on very limited news flow for European stocks. On balance, the second quarter reporting season has been positive for the portfolio although one or two cyclical stocks marginally disappointed leading to price falls which appeared largely overdone. Stock which contributed to performance include Rational (+13.6%) which rose on excellent second quarter numbers with pre-tax profits up 32% on sales up 14%. Wellstream (8.7%) also rose on better than expected first half profits. A recent meeting with the company has confirmed the improved operating environment in the flexible pipes sector. On the negative side NKT (-21.0%) and Trevi (-18.3%) both fell on marginally disappointing second quarter earnings. However the falls have been excessive and should bounce when volumes improve.</p>
Benchmark	HSBC Europe	
Fund Allocation	32.5%	
Month Return ²	-3.7%	
Benchmark	-1.8%	
Top 5 Positions		
1.57%	C & C Group	
1.29%	Lamprell	
1.13%	Ramirent	
1.11%	IFG	
1.10%	Intertek	

Japan

Manager	Sparx AM	<p>The Japanese equity market fell in August following the release of worse-than-expected economic indicators such as Japan's April-June GDP data and the U.S. July labour figures. Investors were already jittery over the outlook for the global economy and further reacted negatively to the rapid Yen appreciation and political uncertainty in Japan.</p> <p>As a result the MSCI Japan Small Cap Index slid -5.2% while the portfolio fell -8.6%, underperforming the index. Impacting performance were the technology-related names that fell on concerns of a stronger Yen and the growing uncertainty over the direction of the worldwide economy. Stocks were also negatively impacted on investor disappointment with the Japanese government. However the recent weakness further increases the attractiveness of Japanese equities with the average dividend yield now higher than 2% and the average price-to-book ratio below 1 times.</p> <p>Going forward, the bottoming out of demand for technology-related goods should provide a tailwind for Japanese stocks. The key will be identifying names that currently trade at low valuations and those that are likely to experience a strong recovery in earnings such as those tied to housing and consumer demand and technology.</p>
Benchmark	MSCI Japan Small	
Fund Allocation	15.8%	
Month Return ²	-8.6%	
Benchmark	-5.2%	
Top 5 Positions		
0.41%	NPC Inc.	
0.38%	Otsuka Kagu Ltd.	
0.38%	Wood One Co. Ltd.	
0.36%	Skymark Airlines Inc.	
0.36%	Anicom Holdings Inc.	

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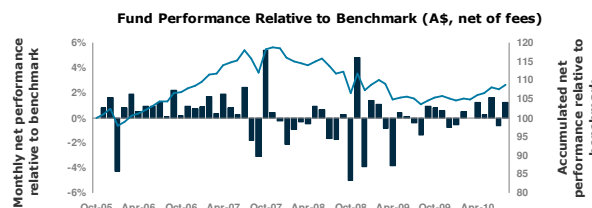
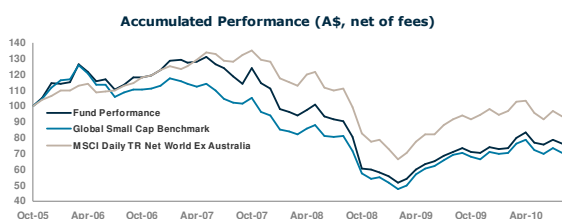
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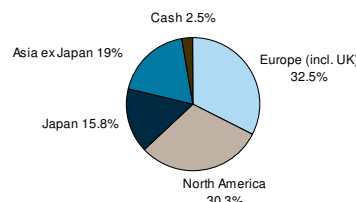
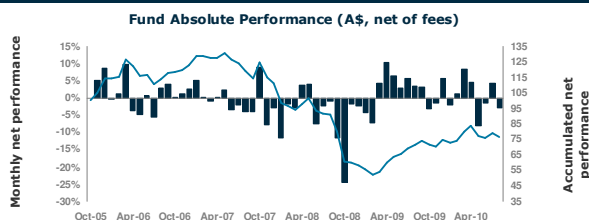
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Asia ex Japan	
Manager	Yeoman Capital
Benchmark	MSCI Asia Small
Fund Allocation	19.0%
Month Return ²	1.6%
Benchmark	-0.3%
<p>The Asian portfolio outperformed for the month returning 1.6% against the benchmark return of -0.3%. The world markets including Asia continued to be haunted by the chance of a double dip recession and statements from the Federal Reserve at the end of the month seemed to reinforce that fear. Consequently, Asian markets were down for the month but not as much as US and European markets.</p> <p>There appears to be a disconnect, for in the face of the chance of global recession governments in Asia continue to apply the brakes in order to cool the overheating real estate markets, the latest being Singapore which has followed Hong Kong and Malaysia.</p> <p>The majority of the companies in the portfolio reported improved half and full year earnings in the month. These include retailers Moiselle, King Fook and Oriental Watches which all had strong gains in August. As the portfolio's Hong Kong stocks continue to appreciate, positions have been trimmed and are likely to be reinvested in Korea where there are better opportunities. At end August, the portfolio allocation to Korea was less than 5%.</p>	
Top 5 Positions	
1.27%	Oriental Watch
1.00%	SIS International
0.84%	King Fook Holdings
0.74%	KGI Securities
0.71%	Chen Hsong Holdings

Accumulated Fund and Benchmark Performance ^{2,3} Monthly Fund Relative Performance ^{2,3}



Monthly Fund Absolute Performance ^{2,3} Fund Allocation



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