

# Pengana Global Small Companies Solution

## September 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\$29.0 million
<b>Inception Date</b>	November 2005	<b>Application/ Redemption Price at Month End</b>	Application: A\$0.7442 Redemption: A\$0.7382
<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%	-2.8%	9.8%				13.3%
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 strong return of 9.8%<sup>2</sup> for the month and outperformed the benchmark return of 8.5%. Strong contributors to outperformance included stock selection in the European and Asian portfolios.

The "risk on" trade returned with vigour in September and equity markets (particularly small cap stocks) reacted accordingly, delivering exceptionally strong returns. While the risk of a "double dip" recession in the US lingers and economic data remains inconclusive, investors reacted positively to speculation that the US Federal Reserve will commence another round of quantitative easing in November to reduce the risk of deflation.

<b>Fund Performance to 30 September 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>	9.8%	11.2%	14.2%	11.2%	-3.4%	21.0%
<b>Benchmark</b>	8.5%	9.1%	8.2%	9.1%	-5.3%	20.0%
<b>North America</b>	11.1%	8.3%	11.2%	8.3%	1.8%	22.3%
<b>Benchmark</b>	12.3%	10.9%	11.9%	10.9%	-1.9%	23.5%
<b>Europe</b>	9.4%	10.7%	13.1%	10.7%	-1.3%	24.9%
<b>Benchmark</b>	5.3%	8.8%	11.9%	8.8%	0.6%	22.7%
<b>Japan</b>	3.2%	-6.2%	-10.1%	-6.2%	-12.5%	25.3%
<b>Benchmark</b>	3.6%	-2.6%	-8.3%	-2.6%	-16.7%	20.5%
<b>Asia ex Japan</b>	15.0%	26.8%	n/a	26.8%	n/a	n/a
<b>Benchmark</b>	12.0%	18.1%	n/a	18.1%	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 Russell 2000 Index of small capitalization stocks recorded its best September ever. While the portfolio performed well in absolute terms it trailed the index for the month delivering a return of 11.1% <sup>2</sup>
Benchmark	Russell 2000	
Fund Allocation	30.3%	
Month Return <sup>2</sup>	11.1%	
Benchmark	12.3%	
<b>Top 5 Positions</b>		
1.13%	WMS Industries	Equities markets continued to oscillate from risk seeking to risk aversion. Fears that the economy would slip back into a recession drove the market lower in August. The fading of those fears fuelled the September rally. Federal Reserve Chairman Bernanke's commitment to support price levels had many observers price in a second round of quantitative easing beginning in November. This could be seen in the outperformance of the Energy and Materials sectors in the month. In addition macroeconomic data, while hardly robust, did not provide any new warning signals.
0.99%	Crocs Inc	
0.96%	CommVault Systems	
0.82%	NxStage Medical	
0.82%	Comtech Telecomm	
Lower quality stocks led the September rally with the index up 12.3% in the month. Leading stocks also had low returns on equity, zero dividends and smaller market capitalizations – all signs of relatively low quality. Franchise companies like those typically held do not have high beta characteristics. In addition a higher than the index's average market capitalization proved to be a slight drag, but not as significant as the beta influence.		

#### Europe (including UK)

Manager	Munros CM	The European portfolio significantly outperformed for the month delivering a return of 9.4% <sup>2</sup> versus the benchmark return of 5.3%. Equity markets posted a strong performance in September as economic news showed some mild improvement with a double dip recession becoming less of a threat.
Benchmark	HSBC Europe	
Fund Allocation	32.5%	
Month Return <sup>2</sup>	9.4%	
Benchmark	5.3%	
<b>Top 5 Positions</b>		
1.53%	Lamprell	Volumes picked up marginally after the summer holiday period but still remain at low levels historically. Sweden (+12.2%), Netherlands (+10.6%) and Finland (+8.8%) all outperformed with Greece (-8.0%) and Portugal (-3.1%) the only markets to show negative returns.
1.50%	C & C Group	
1.14%	IFG	
1.12%	Ipsos	
1.11%	Ramirent	
On a stock basis, Wellstream (+40.4%) rose as it announced it was in talks which may lead to a bid for the company. Lamprell (+36.0%) continued to benefit from good news flows and renewed investor appetite for the oil services sector in general. Goals Soccer Centres (+23.8%) recovered strongly after a prolonged period of underperformance. A recent company visit has confirmed the solidity of the core five-a-side soccer offering in the UK market. Sonova (-7.6%) and Arzys (-3.0%), two stocks that have performed well over the recent market cycle, experienced a degree of profit taking. Both companies remain good long term growth stories.		

#### Japan

Manager	Sparx AM	The month of September started on a positive note as the Japanese equity market rebounded after a sharp decline in August. Still, the stock market remained volatile due to ongoing concerns over the political uncertainty related to the Democratic Party of Japan's presidential elections and the Yen appreciation against the USD. The Fund's reference index, the MSCI Japan Small Cap Index (with dividends) gained +3.60%. Within this environment, the Fund rose +3.2% <sup>2</sup> , underperforming the reference index slightly.
Benchmark	MSCI Japan Small	
Fund Allocation	14.0%	
Month Return <sup>2</sup>	3.2%	
Benchmark	3.6%	
<b>Top 5 Positions</b>		
0.35%	NPC Inc.	Despite the currency intervention, the Yen didn't weaken against the USD and closed the month little changed from a month ago. However, export-oriented names performed well during the month driven by optimism that the currency intervention will result in a weaker JPY. Internet related firms which are not influenced by currency movements were among those that contributed positively to the Fund's performance. The laggards were those firms that rely on domestic demand, which continued to be sluggish, and those that are less liquid.
0.32%	Otsuka Kagu Ltd.	
0.31%	Paramount Bed Co. Ltd.	
0.31%	Askul Corporation	
0.31%	Yushin Precision Equipment	
While the economic recovery in the U.S. and Europe will not be stable, given the monetary easing environment, stock prices appear to have limited downside risk. The emerging economies will continue to drive global economic growth along with China, as concerns about their tightening policy have eased.		

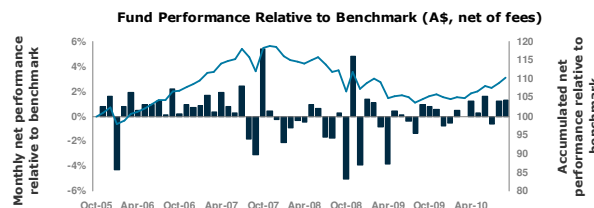
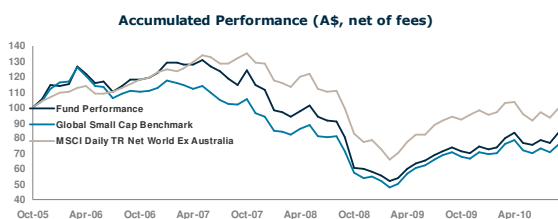
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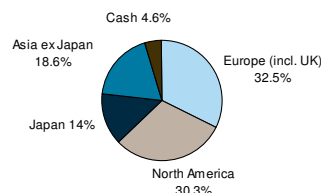
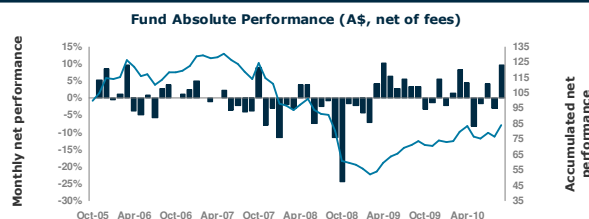
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Asia ex Japan		
Manager	Yeoman Capital	For the month of September, the Asian portfolio delivered a strong 15.0% <sup>2</sup> and outperformed the benchmark return of 12.0%.  Asian markets were surprisingly strong in September partly because investors' fears about the oft-repeated double dip recession and China's hard landing had been front-end loaded into the preceding month's share prices. China's production indicators for August and September beat expectations and tracked sequentially upwards above 50, indicating an improving level of manufacturing activity.  Fund flow into Asia was quite significant as evidenced by the strong uptick in Asian markets. With the smaller South-east Asian equity markets registering close to 50% gains in US\$ terms year to date, one could be forgiven for not realizing that the world is still undergoing serious structural economic and fiscal adjustments. The momentum of the smaller markets may continue as long as the policy risks in China are perceived as yet to peak.  During the month the portfolio sold out of its position in KGI Securities (a Thai broker) and locked in significant profit (approximately 76%). In addition the allocation to Korea was increased as there are more undervalued opportunities. This take the current allocation to 13.3%, up from 4.4% in August. The manager will continue to deploy surplus cash into undervalued stocks.
Benchmark	MSCI Asia Small	
Fund Allocation	18.6%	
Month Return <sup>2</sup>	15.0%	
Benchmark	12.0%	
Top 5 Positions		
0.86%	SIS International	
0.85%	Oriental Watch	
0.68%	Chen Hsong Holdings	
0.66%	Proton Holdings	
0.62%	Samudera Shipping	

## 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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