

# Pengana Emerging Companies Fund November 2010 Update



Australian Equities - Small Caps

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## Fund Performance

Net performance for periods ending November 30 2010 <sup>1</sup>							
	1 month	3 months	6 months	1 year	3 years p.a.	5 years p.a.	Since inception p.a. <sup>2</sup>
<b>Pengana Emerging Companies Fund</b>	-0.2%	11.8%	15.2%	14.2%	-5.3%	12.9%	15.4%
<b>S&amp;P/ASX Small Industrials Acc Index <sup>3</sup></b>	-1.4%	6.6%	7.6%	1.6%	-13.8%	-1.6%	1.5%
<b>Outperformance</b>	<b>1.2%</b>	<b>5.2%</b>	<b>7.6%</b>	<b>12.5%</b>	<b>8.5%</b>	<b>14.5%</b>	<b>13.8%</b>
<b>S&amp;P/ASX Small Ordinaries Acc Index</b>	0.5%	13.3%	16.8%	10.1%	-8.7%	4.4%	6.9%
<b>Outperformance</b>	<b>-0.7%</b>	<b>-1.5%</b>	<b>-1.6%</b>	<b>4.0%</b>	<b>3.4%</b>	<b>8.5%</b>	<b>8.5%</b>

## Fund Commentary

During the month of November, our fund fell 0.2%<sup>1</sup>, compared with a 1.4% fall in the Small Industrials Index and a 0.5% rise in the Small Ordinaries Index. Over the twelve months to November, the fund is up 14.2%<sup>1</sup> which is 12.5% above the Small Industrials Index and 4.0% above the Small Ordinaries Index.

Domestic cyclical industrial stocks came under pressure during November following a surprise 25pt RBA rate increase. On the other hand stocks exposed to global growth (resources and companies which service them), did reasonably well.

We are not heavily exposed to domestic cyclical stocks due to pressure in the retail and housing markets from rising interest rates. Some sectors do appeal, but those are primarily exposed to corporate spending, such as recruitment which is yet to fully recover from the GFC.

Our fund does have a healthy exposure to the mining industry via companies which provides services such as contract mining, drilling, engineering, accommodation, maintenance, waste treatment, transport, and consumable equipment. The outlook for the industry is particularly positive given the rapid expansion planned in iron ore, coal, and natural gas. Our preference is companies which are exposed to the production volumes, rather than the commodity prices which can be highly volatile.

This investment boom relies heavily on demand for raw materials from China. This must be recognised as both an opportunity and a risk. China's growth looks promising, however periods of volatility can be expected, hence our need to limit our exposure to mining services to below 20% of the portfolio, and maintain a close eye on valuations in the sector.

Overall the industrial sector of the Smallcap market remains highly prospective for disciplined stock pickers. Markets remain volatile, and this volatility often distracts shorter term investors which opens up opportunities for us. The dramatic increase in corporate activity is a sure sign that we are not the only longer term investors who see value in the market.

### Key stock price moves

Key successes during November were **REA Group** (+15%), **BT Investment Management** (+13%), **Dominos Pizzas** (+8%), **Thorn Group** (+6%) and **Mineral Resources** (+5%). Detractors included **VDM Group** (-24%), **CSG Group** (-20%), **Toxfree** (-9%), **DKN** (-9%), and **Southern Cross Media** (-8%).

<sup>1</sup> Net performance figures are derived from Manager's records and 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.

<sup>2</sup> Since November 2004

<sup>3</sup> The fund does not invest in resource stocks.

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## Portfolio information

Top 10 Positions (in alphabetical order)	
CSG Group	M2 Telecommunications
IOOF	Ramsay Healthcare
MacMillan Shakespeare	REA (realestate.com.au)
Mac Services	Resmed
Mineral Resources	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

<b>Style</b>	Bottom up stock picker	<b>Management Fees</b>	1.3325%
<b>Benchmark</b>	S&P/ASX Small Ordinaries Accumulation Index	<b>Performance Fees</b>	20.5% of the performance above the Benchmark
<b>Investors</b>	Open	<b>Fund Raising</b>	Maximum of 0.5% of the Benchmark capitalisation
<b>Minimum Initial Investment Amount</b>	A\$25,000 (direct)	<b>FUM at Month End</b>	A\$ 478m
<b>Inception Date</b>	1 November 2004	<b>Application Price at Month End</b>	A\$ 1.9415
<b>Identification Code(s)</b>	APIR PER0270AU ARSN 111 894 510	<b>Redemption Price at Month End</b>	A\$ 1.9299

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