

# Pengana Emerging Companies Fund January 2011 Update



Australian Equities - Small Caps

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## Fund Performance

Net performance for periods ending January 31 2011 <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>	-0.3%	5.4%	18.3%	22.3%	3.4%	13.3%	15.9%
<b>S&amp;P/ASX Small Industrials Acc Index <sup>3</sup></b>	0.4%	3.8%	13.7%	8.5%	-5.8%	-0.9%	2.3%
<b>Outperformance</b>	<b>-0.8%</b>	<b>1.6%</b>	<b>4.5%</b>	<b>13.9%</b>	<b>9.2%</b>	<b>14.2%</b>	<b>13.6%</b>
<b>S&amp;P/ASX Small Ordinaries Acc Index</b>	-2.2%	5.3%	20.8%	19.5%	-1.6%	4.3%	7.5%
<b>Outperformance</b>	<b>1.8%</b>	<b>0.1%</b>	<b>-2.5%</b>	<b>2.8%</b>	<b>5.0%</b>	<b>9.0%</b>	<b>8.4%</b>

## Fund Commentary

During the month of January, our fund fell 0.3%<sup>1</sup>, compared with a 0.4% rise in the Small Industrials Index and a 2.2% fall in the Small Ordinaries Index. Over the twelve months to January, the fund is up 22.3%<sup>1</sup> which is 13.9% above the Small Industrials Index and 2.8% above the Small Ordinaries Index. January saw a fall in commodity prices and mining stocks following a very strong run during the six months to December. Rather than a dramatic downturn in underlying fundamentals, this looked like profit taking in a relatively hot market.

We are entering results season where most companies provide an update to performance and outlook. We expect positive comments from companies involved in non-residential activity (esp mining and infrastructure), and those exposed to the employment markets due to a tightening labour supply. Conversely we would anticipate negative feedback from retailers (Myer and JB Hifi have already flagged tough conditions), companies exposed to the housing markets, and those relying on the spending of capital starved entities like property trusts.

The rapid rise in the \$A is placing pressure on offshore earners and exporters, while providing a shorter term boost to importers (including most retailers), and travel companies. Beware, however that the short term benefit to retailers has, in most cases, been handed on to the consumer. In fact a structurally high \$A is a major challenge to most retailers as it drives deflation, which effectively shrinks the overall market size.

We retain a relatively high weight to the mining services sector. The latest data shows the value of construction work underway in WA is currently over \$50bn, which is double the prior peak achieved in 2008<sup>4</sup>. On a national basis, the RBA expects mining investment to rise from 4% of GDP to 6%, further emphasising the enormous activity on the cards.

The majority of stocks we own do not heavily rely on the economy. For example, stocks such as M2 Telecommunications, McMillan Shakespeare, Slater & Gordon and Thorn Group have all grown strongly through the GFC and remain capable of further strong growth notwithstanding economic cycles.

### Key stock price moves

Key successes during January were **RP Data** (up 62% after a takeover offer), **Kathmandu** (+20%), **MACA Services** (+26%), **Fantastic Furniture** (+10%), and **Paperlinx** (+10%). Key detractors were **VDM Group** (-12%), **CSG Group** (-11%), **Miclyn Express** (-11%), **APN News and Media** (-10%), and **Retail Food Group** (-10%).

<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 January 2004

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

<sup>4</sup> Source ABS and Argonaut Securities

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## Portfolio information

Top 10 Positions (in alphabetical order)	
CSG Group	M2 Telecommunications
IOOF	Ramsay Healthcare
Kathmandu	REA (realestate.com.au)
MacMillan Shakespeare	Thorn Group
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>	Existing investors only	<b>Fund Raising</b>	0.5% of the Benchmark capitalisation
<b>Minimum Initial Investment Amount</b>	A\$25,000 (direct)	<b>FUM at Month End</b>	A\$ 521m
<b>Inception Date</b>	1 November 2004	<b>Application Price at Month End</b>	A\$ 2.0446
<b>Identification Code(s)</b>	APIR PER0270AU ARSN 111 894 510	<b>Redemption Price at Month End</b>	A\$ 2.0324

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