

Pengana Global Small Companies Solution

January 2011 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 Fees¹ (monthly)	0.7688% p.a.
Benchmark	Equally weighted to the three major developed regions: North America, Europe including UK, and Asia including Japan	Performance Fees¹ (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\$33.0 million
Inception Date	November 2005	Application/ Redemption Price at Month End	Application: A\$0.8446 Redemption: A\$0.8379
Identification Code	ARSN 120 300 450		

Fund Commentary

Fund Performance (A\$, net of fees)^{2,3}

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2011	0.6%												0.6%
2010	-2.0%	1.4%	8.5%	4.6%	-8.4%	-1.4%	4.2%	-2.8%	9.8%	2.6%	3.2%	6.5%	27.8%
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 0.6%² and outperformed the benchmark return of 0.3%. Outperformance for the month was driven by US, Japanese and Asian stock selection.

Equity markets posted relatively subdued returns for January after the strong finish in 2010. Although there was further evidence that the US economic recovery is on track, Asian governments responding to inflationary fears, continue to impose tighter monetary controls which potentially will lead to slower growth from the region. In addition, the prospect of political instability in the Middle East continues to weigh on investors' minds.

Fund Performance to 31 January 2011 (A\$, net of fees)^{2,3}

	1 Month	3 Months	1 Year	Financial YTD	Since Inception p.a. ⁴	Standard Deviation
Fund	0.6%	10.6%	31.3%	26.2%	-0.9%	20.6%
Benchmark	0.3%	9.4%	22.8%	22.2%	-2.9%	19.7%
North America	0.8%	10.9%	30.8%	26.8%	4.7%	21.9%
Benchmark	-0.3%	11.1%	29.8%	28.2%	0.9%	23.0%
Europe	-1.3%	8.4%	23.5%	22.8%	0.8%	24.4%
Benchmark	1.0%	9.1%	21.6%	22.9%	2.9%	22.4%
Japan	3.8%	21.5%	12.3%	7.7%	-9.3%	25.3%
Benchmark	2.2%	15.5%	7.4%	7.6%	-14.1%	20.5%
Asia ex Japan	-0.1%	7.5%	63.9%	42.8%	55.2%	21.4%
Benchmark	-1.9%	0.7%	25.5%	23.1%	17.8%	20.5%

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; January 2010 (Asia Ex Japan)

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Fund Commentary (cont'd)		
North America		
Manager	Cortina AM	The US portfolio outperformed in January delivering a return of 0.8% versus the Russell 2000 return of -0.3%. Following a stunning December surge that capped off the second consecutive year of 27% gains for the Russell 2000 Index, the small cap market fell 0.3% in January. With large caps beating small caps in January, the so-called "January Effect" failed to hold this year.
Benchmark	Russell 2000	
Fund Allocation	31.8%	
Month Return ²	0.8%	
Benchmark	-0.3%	
Top 5 Positions		
1.12%	Crocs Inc	Looking inside the small cap market returns is an easy task this month – most quality and size measurements fell in line with long term historical trends. The highest ROE companies appreciated in January while the negative ROE companies declined the most. Established growth companies appreciated in January while money-losing companies declined the most. Stocks that contributed to performance included Nanometrics (electronic production equipment), Fortinet (network security), Oasis Petroleum (oil exploration and production), Frontier Oil (oil refiner) and AMERIGROUP (managed healthcare). The exceptional small cap outperformance reflects a market environment that looks bright for small caps. Greater revenue growth and earnings leverage opportunities reside in small caps – as they have for the past decade - providing good support for small cap bulls.
0.93%	NxStage Medical	
0.92%	CommVault Systems	
0.84%	Vocus	
0.73%	WMS Industries	
Europe (including UK)		
Manager	Munros CM	The European portfolio underperformed the benchmark returning -1.3% versus 1.0% for the benchmark. Markets rose in early January but retreated as the month went on reflecting investor concerns over the escalating situation in Egypt. The southern European markets bounced strongly in January and were largely responsible for the index registering a positive result. The underweight to these markets led to the underperformance against the benchmark.
Benchmark	HSBC Europe	
Fund Allocation	32.0%	
Month Return ²	-1.3%	
Benchmark	1.0%	
Top 5 Positions		
1.34%	C & C Group	Spain (+8.2%), Greece (+6.6%) and Portugal (+4.6%) outperformed while Austria (-1.7%), Netherlands (-1.4%) and Sweden (-1.3%) underperformed. In particular Hellenic Exchanges (+14.3%) outperformed the strong Greek market. Kloeckner (steel distributor) rose as the company announced a major acquisition which was seen as positive for shareholders. Aberdeen Asset Management continued its good recent run on the back of strong global equity markets. FL Smidth (engineering) fell on profit taking after a strong final quarter of last year. IFG financial) remains friendless despite its low valuation, selling on 6x forecast earnings. There is no buying appetite for micro caps at the moment.
1.28%	Aberdeen Asset Management	
1.08%	Lamprell	
1.04%	Spectris	
1.04%	Ramirent	
Japan		
Manager	Sparx AM	The Japanese equity market maintained its upward momentum in the first half of January following December's strong performance. However, Japanese stocks slipped in the latter half of the month on the back of further monetary tightening in China, interest rate hikes in the developing countries as well as fears that a surge in commodity prices will dampen investor sentiment. As a result, the MSCI Japan Small Cap Index finished the month up 2.2%.
Benchmark	MSCI Japan Small	
Fund Allocation	15.5%	
Month Return ²	3.8%	
Benchmark	2.2%	
Top 5 Positions		
0.36%	Weathernews	The Japanese portfolio gained 3.8%, outperforming the index. Outperformance can be attributed to quality stock selection amid a volatile market. In general, companies with low price-to-book ratios remained favourable and contributed positively to the Fund's performance while firms that had risen sharply in recent months were among the laggards due to profit taking. Japan's export-oriented companies may potentially revise up their earnings forecasts for this fiscal year given a weaker currency outlook and previous conservative earnings outlook. Starting next fiscal year (1 April), both domestic-oriented companies as well as exporters should perform favourably for the most part and will experience an upward trend following their earnings announcements after going through a short-term correction. Therefore, going forward, the investment strategy is to increase our exposure mainly to those manufacturing companies with cheaper valuations.
0.35%	Anest Iwata	
0.34%	Yamaichi Electronics	
0.34%	Village Vanguard	
0.34%	Nippon Seiki	

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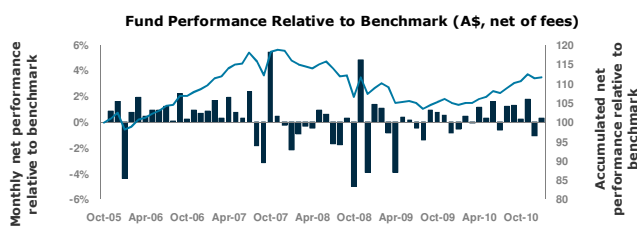
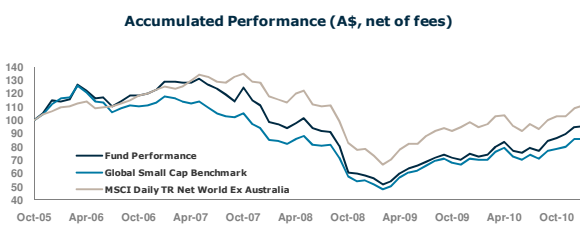
Asia ex Japan	
Manager	Yeoman Capital
Benchmark	MSCI Asia Small
Fund Allocation	17.1%
Month Return ²	-0.1%
Benchmark	-1.9%
Top 5 Positions	
1.17%	SIS International
0.78%	Chen Hsong Holdings
0.59%	Hung Hing Printing Group
0.58%	Samudera Shipping
0.54%	Metro Kajang

For the month of January 2011, the Asian portfolio was down -0.1% as compared with the Index which was down -1.9%. Contributors to performance included Pelangi Publishing Group (Malaysia), Hung-Hing Printing (HK) and real estate developer Metro Kajang (Malaysia). Despite a volatile month there was little change to the Asian portfolio.

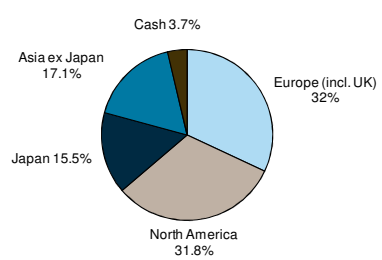
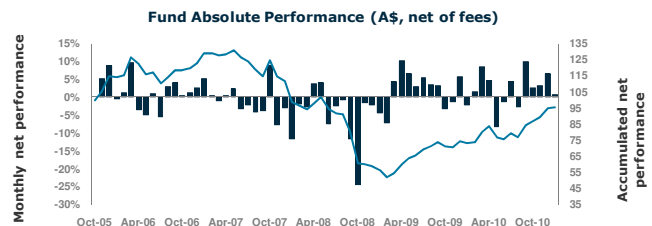
Asian equity markets got off to a volatile year although they finished the month slightly down as political and social tensions in the Middle East (first Tunisia, then Egypt with knock-on effect for the other countries in the region except Oman). Inflationary pressures in Asia contributed to the cautious sentiment. Singapore announced yet another round of real estate price control measures. China policy makers continued to make hawkish comments to try talk down rampant price escalations, now spreading even to the second tier provincial cities. All of these measures have implications for interest rates and money supply in Asia.

While economic growth in the region remains robust, continued measures to curb inflation are likely to have an impact on growth rates and consequently will continue to weigh on investors' minds.

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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