

# Pengana Emerging Companies Fund February 2011 Update



Australian Equities - Small Caps

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## Fund Performance

Net performance for periods ending February 28, 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>	2.2%	7.9%	20.6%	22.8%	5.5%	12.2%	16.1%
<b>S&amp;P/ASX Small Industrials Acc Index<sup>3</sup></b>	0.4%	5.6%	12.5%	7.9%	-5.2%	-1.5%	2.4%
<b>Outperformance</b>	<b>1.9%</b>	<b>2.3%</b>	<b>8.1%</b>	<b>14.9%</b>	<b>10.7%</b>	<b>13.8%</b>	<b>13.7%</b>
<b>S&amp;P/ASX Small Ordinaries Acc Index</b>	1.3%	6.1%	20.2%	21.6%	-2.4%	4.1%	7.6%
<b>Outperformance</b>	<b>0.9%</b>	<b>1.8%</b>	<b>0.5%</b>	<b>1.2%</b>	<b>7.9%</b>	<b>8.1%</b>	<b>8.5%</b>

## Fund Commentary

During the month of February, our fund rose 2.2%<sup>1</sup>, compared with a 0.4% rise in the Small Industrials Index and a 1.3% rise in the Small Ordinaries Index. **Over the twelve months to February, the fund is up 22.8%<sup>1</sup> which is 14.9% above the Small Industrials Index and 1.2% above the Small Ordinaries Index.** Over the last year the ASX/S&P Small Resources Index has risen 48% compared to only 8% rise for the ASX/S&P Small Industrials index<sup>3</sup>.

The end of February coincided with the conclusion to the profit reporting season. Generally the results were in line with analyst expectations and probably not as bad as many had feared leading into the results season. Small Industrial stocks fared better than their larger industrial counterparts as typically small companies are more importers than exporters and accordingly benefited from the improved purchasing power of a high Australian dollar.

One of the key positive themes to come from the companies we met was the continuing underlying strength enjoyed by mining service companies and the positive flow on effect this is having for recruitment firms placing skilled labour. More sobering commentary came from those companies exposed to the residential housing and retail sectors of the economy. Both of these sectors have been hit hard by interest rate increases through 2010.

Across our portfolio we were generally impressed with the quality of the results delivered by the companies we own. Some of the highlights across our portfolio were Flexigroup, REA Group, M2 Telecommunications, Ausdrill, McMillan Shakespeare, Slater and Gordon, Mineral Resources, Cardno and Breville where our expectations were surpassed.

Valuations on small industrial stocks are currently attractive with the prospective PE ratio 10% below long term averages, based on Macquarie bank stock forecasts. These undemanding fundamentals are despite a realignment of cost bases brought about by the GFC which should lead to strong operating leverage once the inevitable economic recovery occurs.

### Key stock price moves

Key successes during February were **Flexigroup** (+28%), **M2 Telecommunications** (+21%), **Ausdrill** (+21%), and **Thinksmart** (+20%). Key detractors were **VDM Group** (-28%), **CSG Group** (-15%), **Salmat** (-12%), and **Bradken** (-9%).

<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.

## Portfolio information

Pengana Capital Ltd (ABN 30 103 800 568, Australian financial services license number 226566) is the issuer of units in the Pengana Emerging Companies Fund (the "Fund"). A product disclosure statement for the Fund is available and can be obtained from our distribution team. A person should obtain a copy of the product disclosure statement and should consider the product disclosure statement carefully before deciding whether to acquire, or to continue to hold, or making any other decision in respect of, the units in the Fund. This report was prepared by Pengana Capital Ltd and does not contain any investment recommendation or investment advice. This report has been prepared without taking account of any person's objectives, financial situation or needs. Therefore, before acting on any information contained within this report a person should consider the appropriateness of the information, having regard to their objectives, financial situation and needs. Neither Pengana Capital Ltd nor its related entities, directors or officers guarantees the performance of, or the repayment of capital or income invested in, the Fund. An investment in the fund is subject to investment risk including possible delays in repayment and loss of income and principal invested.

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Top 10 Positions (in alphabetical order)	
CSG Group	M2 Telecommunications
IOOF	Ramsay Healthcare
Cardno	REA (realestate.com.au)
McMillan Shakespeare	Breville Group
Mineral Resources	Slater & Gordon

## Fund Description

The Pengana Emerging Companies Fund combines the skills of highly experienced small company investors (collectively 32 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\$ 538m
<b>Inception Date</b>	1 November 2004	<b>Application Price at Month End</b>	A\$ 2.0901
<b>Identification Code(s)</b>	APIR PER0270AU ARSN 111 894 510	<b>Redemption Price at Month End</b>	A\$ 2.0776

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