

Pengana Emerging Companies Fund

April 2011 Update



Australian Equities - Small Caps

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Fund Performance

Net performance for periods ending April 30, 2011 ¹							
	1 month	3 months	6 months	1 year	3 years p.a.	5 years p.a.	Since inception p.a. ²
Pengana Emerging Companies Fund	-1.7%	2.7%	8.3%	15.5%	8.1%	10.8%	15.7%
S&P/ASX Small Industrials Acc Index ³	-1.1%	0.7%	4.5%	4.9%	-4.2%	-2.3%	2.4%
Outperformance	-0.6%	2.0%	3.8%	10.6%	12.3%	13.1%	13.3%
S&P/ASX Small Ordinaries Acc Index	-2.6%	-1.6%	3.6%	10.5%	-2.9%	2.1%	7.0%
Outperformance	0.9%	4.3%	4.7%	5.0%	11.0%	8.7%	8.7%

Fund Commentary

During the month of April, our fund fell 1.7%¹, compared with a 1.1% fall in the Small Industrials Index and a 2.6% fall in the Small Ordinaries Index. **Over the twelve months to April, the fund is up 15.5%¹ which is 10.6% above the Small Industrials Index and 5.0% above the Small Ordinaries Index.**

Global markets were volatile during April, driven by fears over the nuclear fallout in Japan and concerns over US growth due to higher oil prices. Commodity prices and mining stocks came under pressure following a spectacular rise late in 2010 as they are more leveraged to global growth, which remains under a variety of pressures.

In Australia, the overall market was largely flat, however mild strength in industrial shares was offset by a very weak mining sector. A similar pattern emerged in the smallcap sector where the Small Resources index fell 4.8% versus a 1.0% fall in the Small Industrials index.

Strangely, the A\$ rose 6% in the month to US\$1.09. Typically our currency closely tracks the resources market, however this recent rally seems to be driven by weakness in the US\$ and our relatively high interest rates. The higher dollar has negative implications for companies earning profits offshore, and those which compete with imports. Conversely it has a shorter term positive benefit for retailers who have enough brand strength to retain the benefit of sourcing cheaper product from Asia in US\$.

May and June is usually the time when companies who are struggling to hit full year earnings expectations confess. We have already seen profit warnings from Leighton (project cost blow-outs) and Goodman Fielder (higher commodity prices), and we would expect a raft of warnings to come from the smallcap sector. Stocks we are most cautious on are those in the housing sector, certain retailers, and offshore earners.

The impressive performance of the mining sector during 2010 left many high quality industrial stocks overlooked. This has left valuations modest, and opportunities plentiful for medium term investors.

Key stock price moves

Key successes during April were **Flexigroup** (+14%), **Programmed Maintenance** (+12%), **Australian Power & Gas** (+11%), **Slater & Gordon** (+10%), and **Kathmandu** (+10%). Key detractors were **CSG Group** (-22%), **PaperlinX** (-18%), **Ausenco** (-14%), **Ausdrill** (-10%) and **DKN Group** (-10%).

¹ 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.

² Since November 2004

³ 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
Kathmandu	REA (realestate.com.au)
McMillan Shakespeare	Slater & Gordon
Mineral Resources	Thorn Group

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

Style	Bottom up stock picker	Management Fees	1.3325%
Benchmark	S&P/ASX Small Ordinaries Accumulation Index	Performance Fees	20.5% of the performance above the Benchmark
Investors	Existing investors only	Fund Raising	0.5% of the Benchmark capitalisation
Minimum Initial Investment Amount	A\$25,000 (direct)	FUM at Month End	A\$ 545m
Inception Date	1 November 2004	Application Price at Month End	A\$ 2.1002
Identification Code(s)	APIR PER0270AU ARSN 111 894 510	Redemption Price at Month End	A\$ 2.0876

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