

Pengana Emerging Companies Fund

May 2011 Update



Australian Equities - Small Caps



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Fund Performance

Net performance for periods ending May 31, 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	-2.6%	-2.1%	5.6%	21.7%	6.5%	10.7%	15.1%
S&P/ASX Small Industrials Acc Index ³	-1.9%	-1.6%	3.9%	11.9%	-4.4%	-1.9%	2.0%
Outperformance	-0.7%	-0.5%	1.7%	9.9%	10.9%	12.6%	13.1%
S&P/ASX Small Ordinaries Acc Index	-1.9%	-4.7%	1.1%	18.1%	-4.8%	2.5%	6.5%
Outperformance	-0.7%	2.6%	4.6%	3.7%	11.3%	8.2%	8.6%

Fund Commentary

During May, our fund fell 2.6%¹, compared with a 1.9% fall in both the Small Industrials and Small Ordinaries Indices. **Over the twelve months to May, the fund is up 21.7%¹, which is 9.9% above the Small Industrials Index and 3.7% above the Small Ordinaries Index.**

Global markets were volatile again during May, with further fears over the rate of US recovery, and a deterioration of the situation in Greece. Domestically, banks underperformed as investor concern over a peaking housing market weighed heavily. Smallcap stocks fell roughly in line with the large caps over the month.

In recent notes, we have cautioned that certain areas of the economy had presented risks to shorter term earnings, and had positioned our portfolio to best avoid these risks. The profit warnings have come through recently from companies exposed to retail activity (eg Funtastic and Customers), sagging corporate sentiment (lower white collar hiring activity reported by Chandler MacLeod), extreme weather (eg Boom Logistics, Ridley, Waterco), and rising raw material costs (eg Nuplex).

The fund retains a reasonable exposure to the mining services sector (15-20%) based on the enormous capex growth planned over the coming 3-5 years, following a slump induced by the GFC and uncertainty surrounding the proposed tax changes in the sector. The ABS reports that planned capex in the mining sector has risen by over 60% in the past 12 months. We have a well diversified exposure to the theme, and prefer companies exposed to mine production rather than just the construction cycle.

China continues to be a critical factor in many domestic sectors whether it be demand for our exports, or a provider of imported product. We plan to spend a week in China in late June in order to do further due diligence on our stocks which have operations over there.

The shorter term uncertainties have again created a market where true long term value is being overlooked by nervous investors. The majority of our portfolio remains invested in stocks which can grow earnings regardless of the economic cycle. Valuations remain below long term averages, especially in industrial stocks which are our focus.

Key stock price moves

Key successes during May were **Mainfreight (+13%), Programmed Maintenance (+13%), McMillan Shakespeare (+12%), Skilled Group (+11%)** and **Bradken (+9%)**. Key detractors were **PaperlinX (-41% - a small position in our fund), Thinksmart (-20%), Retail Food Group (-18%), CSG Group (-17%),** and **DKN Group (-17%)**.

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

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³ The fund does not invest in resource stocks.

Portfolio information

Top 10 Positions (in alphabetical order)

CSG Group	M2 Telecommunications
IOOF	Ramsay Healthcare
Mainfreight	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\$ 517m
Inception Date	1 November 2004	Application Price at Month End	A\$ 2.0460
Identification Code(s)	APIR PER0270AU ARSN 111 894 510	Redemption Price at Month End	A\$ 2.0338

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