

Pengana Emerging Companies Fund

July 2011 Update



Australian Equities - Small Caps



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Fund Performance

Net performance for periods ending July 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	-0.1%	-5.6%	-3.1%	14.6%	10.1%	9.4%	14.1%
S&P/ASX Small Industrials Acc Index³	-1.8%	-5.4%	-4.7%	8.3%	-1.4%	-2.7%	1.4%
Outperformance	1.7%	-0.2%	1.6%	6.3%	11.5%	12.1%	12.7%
S&P/ASX Small Ordinaries Acc Index	1.4%	-5.6%	-7.1%	12.2%	-0.3%	1.6%	5.7%
Outperformance	-1.5%	0.0%	4.0%	2.4%	10.4%	7.8%	8.4%

Fund Commentary

During July, our fund fell 0.1%¹, compared with a 1.8% fall in the Small Industrials Index and a 1.4% rise in the Small Ordinaries Index. **Over the twelve months to July, the fund is up 14.6%¹, which is 6.3% above the Small Industrials Index and 2.4% above the Small Ordinaries Index.**

Global issues again dominated markets in July, with the US debate over the debt ceiling, combined with Euro issues creating further volatility. Smallcap resources stocks bucked the trend, bouncing 6.3% following a poor prior four months.

August has seen volatility spike considerably, triggered by the S&P downgrade in the US and fears over Spain and Italy's economic prospects. Short term panic has hit most assets classes, with smallcaps no exception. Dissecting the risks and outcomes in such an environment becomes difficult, however a level head is critical in such markets.

Forecasting shorter term market returns in this environment is fraught with risk, however global panic often throws up the most attractive investment opportunities for patient investors, as was proven by the GFC in 2008/2009. During that time many high quality stocks were sold down without regard to their valuation or earnings quality, and provided our fund with highly attractive performance once the market settled.

The fund remains primarily exposed to companies which can grow earnings in any economic environment. So this dislocation does not alter the earnings outlook for most of our stocks, and lower share prices merely increase our conviction in the investment. We also avoid speculative stocks and highly geared companies, which run a much higher risk of becoming terminal victims in a downturn.

Valuations in smallcaps are now close to GFC levels, which proved a very rewarding experience for those who held on through the noise. The upcoming results season will remind investors that quality earnings streams should attract premium valuations, hence our confidence in the portfolio remains very high for medium term investors.

Key stock price moves in July

Key successes during July were **Reckon** (+13%), **Norfolk** (+13%), **Mastermyne** (12%), **Mineral Resources** (+6%), and **Mainfreight** (+6%). Key detractors were **G8 Education** (-25%), **BT Investment Mgmt** (-10%) **Thinksmart** (-6%) **Breville** (-5%) **Ramsay Healthcare** (-4%), and **M2 Telecommunications** (-3%).

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
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\$474 m
Inception Date	1 November 2004	Application Price at Month End	A\$1.9447
Identification Code(s)	APIR PER0270AU ARSN 111 894 510	Redemption Price at Month End	A\$1.9331

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