

Pengana Emerging Companies Fund

August 2011 Update



Australian Equities - Small Caps



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1 of 2

Fund Performance

Net performance for periods ending August 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	-3.4%	-6.4%	-8.4%	10.5%	6.1%	7.6%	13.4%
S&P/ASX Small Industrials Acc Index ³	-2.2%	-5.7%	-7.2%	4.5%	-3.8%	-3.9%	1.1%
Outperformance	-1.2%	-0.8%	-1.2%	6.0%	9.9%	11.6%	12.3%
S&P/ASX Small Ordinaries Acc Index	-2.7%	-6.3%	-10.7%	7.2%	-1.8%	0.3%	5.2%
Outperformance	-0.7%	-0.7%	2.3%	3.3%	7.9%	7.3%	8.2%

Fund Commentary

During August, our fund fell 3.4%¹, compared with a 2.2% fall in the Small Industrials Index and a 2.7% fall in the Small Ordinaries Index. **Over the twelve months to August, the fund is up 10.5%¹, which is 6.0% above the Small Industrials Index and 3.2% above the Small Ordinaries Index.**

The month was incredibly volatile globally, with the US credit downgrade, and escalating concerns over the European debt situation. The domestic sharemarket fared well in comparison to most offshore markets, falling 1.9% vs a 4.4% fall in the Dow Jones, and much larger losses in European markets. Locally, the resources stocks fell 4.9% vs a 0.5% fall in industrial stocks. The Small Ordinaries fell 2.7%, again with resources stocks falling harder than industrials. Australia's stronger performance reflects its closer economic ties with China compared to the US and Europe.

Results season occurred during the second two weeks of August, bringing investors back to stock specific news as opposed to macro volatility. In summary the results and outlook comments did not contain major surprises. Retail, housing and media were all tough as expected, mining services reasonably bullish, and companies which delivered earnings growth rewarded for doing so in tougher conditions.

Most of our larger holdings reported strong results, especially REA Group (realestate.com.au), Mineral Resources, Ramsay Healthcare, MacMillan Shakespeare, IOOF, Breville, and Dominos Pizza.

Our portfolio retains a very light exposure to stocks which have economically sensitive earnings. The domestic economy is shifting back a notch, and earnings downgrades have hit individual share prices hard. In our view it is too early to assume the market has absorbed the increased cyclical risk, however we will closely watch for opportunities where the share price decline more than captures the downside risk to earnings. These opportunities proved highly fruitful in 2009 when investors returned to bombed out cyclical stocks.

Global uncertainty continues to plague markets, however, the extreme short term sentiment is resulting in many high quality stocks trading at cheap valuations.

Key stock price moves in August

Key successes during August were **Dominos Pizza (+21%), Fantastic Furniture (+16%), REA Group (+8%), Amcom (+7%), and Flexigroup (+7%)**. Key detractors were **Transfield Services (-26%), Slater & Gordon (-12%), CSG Group (-11%), Collins Foods (-11%), and M2 Telecommunications (-9%)**.

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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2 of 2

Portfolio information

Top 10 Positions (in alphabetical order)

Collins Foods	M2 Telecommunications
CSG Group	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	Open – direct and select platforms	Fund Raising	0.5% of the Benchmark capitalisation
Minimum Initial Investment Amount	A\$25,000 (direct)	FUM at Month End	A\$449 m
Inception Date	1 November 2004	Application Price at Month End	A\$1.8785
Identification Code(s)	APIR PER0270AU ARSN 111 894 510	Redemption Price at Month End	A\$1.8672

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