

# Pengana Emerging Companies Fund October 2011 Update



Australian Equities - Small Caps

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1 of 2

## Fund Performance

Net performance for periods ending October 31, 2011							
	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<sup>1</sup></b>	6.0%	-3.9%	-9.3%	-1.8%	17.0%	4.6%	13.0%
<b>S&amp;P/ASX Small Industrials Acc Index<sup>3</sup></b>	5.8%	-3.5%	-8.8%	-4.6%	7.9%	-5.6%	0.9%
<b>Outperformance<sup>1</sup></b>	<b>0.2%</b>	<b>-0.3%</b>	<b>-0.5%</b>	<b>2.8%</b>	<b>9.1%</b>	<b>10.2%</b>	<b>12.1%</b>
<b>S&amp;P/ASX Small Ordinaries Acc Index</b>	7.9%	-6.2%	-11.4%	-8.2%	12.6%	-2.1%	4.6%
<b>Outperformance<sup>1</sup></b>	<b>-1.9%</b>	<b>2.3%</b>	<b>2.1%</b>	<b>6.4%</b>	<b>4.4%</b>	<b>6.7%</b>	<b>8.4%</b>

## Fund Commentary

During October, our fund rose 6.0%<sup>1</sup>, compared with a 5.8% rise in the Small Industrials Index and a 7.9% rise in the Small Ordinaries Index. Over the twelve months to October, the fund is down 1.8%<sup>1</sup>, which is 6.5% above the Small Industrials and 2.9% above the Small Ordinaries. **October marks our seventh year in business, over which time our fund has outperformed the Small Industrials by 12.1% p/a<sup>1</sup> and the Small Ordinaries by 8.4% p/a.<sup>1</sup>**

October saw a strong bounce in global markets as a resolution to the Greek debt crisis firmed up. The S&P ASX 200 rose 7.2% and the Small Ordinaries rose 7.9% with resources stocks outperforming the industrial stocks following a period of weakness in the recent downturn.

European issues continue to dominate, exacerbating the brittle sentiment and short-termism in markets. The planned rescue package for Greece and a recapitalisation of the banking system is evolving daily, however there appears strong resolution to do whatever it takes to avoid a worsening situation.

The European economic situation has limited direct effect on our portfolio, unless it results in a dramatic flow-on effect on China. We currently do not believe this flow-on effect will be material as economic activity in China is largely driven by internal growth and not exports. Given our lack of direct exposure to mining companies, we believe such a scenario would damage broader markets more than our portfolio.

The RBA finally changed tack on interest rates in early November, which may arrest the decline in housing and retail activity. This opens up potential investment opportunities in cyclical stocks which are oversold, however we will not act quickly given the potential for earnings to sag further before recovering.

Our portfolio's holding in Collins Foods was disappointing in early November following a warning that the company would miss its prospectus forecasts due to softer sales outcomes. The share price reaction was severe, however we judge the issues to be cyclical not structural, hence have not altered our holding in the stock. The overall impact on the portfolio from this development has been managed given that the position is under 2% of the Fund.

Global uncertainty continues to create strong opportunities for patient investors. Valuations are highly attractive, and many stocks whose earnings are not tied to the economy are trading at highly attractive prices.

### Key stock price moves in October

Key successes during October were **IOOF (+17%)**, **REA Group (+11%)**, **Boart Longyear (+23%)**, **Ausenco (+22%)** and **MacMillan Shakespeare (+12%)**. Key detractors were **M2 Telecommunications (-4%)**, **Collins Foods (-8%)**, **Mainfreight (-4%)**, **Ramsay Healthcare (-1%)** and **Mastermyne (-5%)**.

<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.

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2 of 2

### Portfolio information

#### Top 10 Positions (in alphabetical order)

CSG Group	Mineral Resources
Kathmandu	M2 Telecommunications
IOOF	Ramsay Healthcare
Mainfreight	REA (realestate.com.au)
McMillan Shakespeare	Slater & Gordon

### Fund Description

The Pengana Emerging Companies Fund combines the skills of highly experienced small company investors (collectively 33 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>	Open – direct and select platforms	<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\$441m
<b>Inception Date</b>	1 November 2004	<b>Application Price at Month End</b>	A\$1.8698
<b>Identification Code(s)</b>	APIR PER0270AU ARSN 111 894 510	<b>Redemption Price at Month End</b>	A\$1.8586

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