

Pengana Emerging Companies Fund November 2011 Update



Australian Equities - Small Caps

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Fund Performance

Net performance for periods ending November 30, 2011							
	1 month	3 months	1 year	3 years p.a.	5 years p.a.	7 years p.a.	Since inception p.a. ²
Pengana Emerging Companies Fund	-3.9%	-4.4%	-5.5%	20.6%	3.2%	11.6%	12.2%
S&P/ASX Small Industrials Acc Index³	-3.2%	-4.5%	-6.4%	10.5%	-6.9%	0.0%	0.4%
Outperformance	-0.7%	0.1 %	0.9%	10.1%	10.3%	11.6%	11.8%
S&P/ASX Small Ordinaries Acc Index	-3.7%	-7.1%	-12.1%	15.0%	-3.6%	3.6%	4.0%
Outperformance	-0.2%	2.7%	6.6%	5.6%	6.8%	8.0%	8.2%

Fund Commentary

During November, our Fund fell 3.9%¹, compared with a 3.2% fall in the Small Industrials Index and a 3.7% fall in the Small Ordinaries Index. Over the twelve months to November, the Fund is down 5.5%¹, which is 0.9% above the Small Industrials and 6.6% above the Small Ordinaries.

After a decent bounce in October, November was weak with global markets again dominated by the sovereign debt situation in Europe. The domestic stockmarket fell 3.5%, with Smallcaps falling roughly in line with the broader market. Resources shares fell harder than industrials due to their relatively higher risk and exposure to global growth.

Italy's funding costs ballooned in October due to its worsening fiscal situation. This raised the possibility of a rescue package which would dwarf the solutions offered so far in Greece and Portugal. While there appears resolve among the more stable countries, gaining consensus is difficult given the competing interests.

It seems the only "silver bullet" would be for the ECB to become the lender of last resort, effectively bolstering the borrowing ability of Italy and other troubled nations. Italy is viewed by many as too big to fail, hence the likelihood of such a solution increasing by the day. In effect this would mirror the TARP program in the US which was the primary catalyst for the banking system to return to normal during 2009, and resulted in a very strong recovery in global markets.

The situation remains fluid, however investors are clearly taking a glass-half-empty approach. Valuations are highly attractive, corporate activity high, however most investors are holding record levels of cash. From here markets have the potential to recover strongly based on an abatement of bad news. Remember during 2009 the news which drove global markets higher was not good news, just "less bad" news.

The domestic economy has its challenges through weak retail sales, slow housing activity, and poor sentiment. The RBA lowered rates in early November, and is expected to cut again before Christmas. On the flipside, feedback from the mining industry remains very bullish, with the outlook for capital expenditure very strong into the medium term.

While the short term volatility consumes most investor's attention, we find the range of investment opportunities in quality companies at attractive prices currently highly encouraging for medium term investors.

Key stock price moves in November

Key successes during November were **Dominos Pizza** (+12%), **Mineral Resources** (+5%), **Mainfreight** (+7%), **RCR Tomlinson** (+15%), and **Campbell Bros** (+5%). Key detractors **Collins Foods** (-33%), **CSG Group** (-12%), **IOOF** (-13%), **Talent 2** (-20%) and **Slater & Gordon** (-8%).

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
Kathmandu	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 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

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	Fund Raising	0.5% of the Benchmark capitalisation
Minimum Initial Investment Amount	A\$25,000 (direct)	FUM at Month End	A\$421m
Inception Date	1 November 2004	Application Price at Month End	A\$1.7964
Identification Code(s)	APIR PER0270AU ARSN 111 894 510	Redemption Price at Month End	A\$1.7856

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