



## PENGANA EMERGING COMPANIES FUND

THE PENGANA EMERGING COMPANIES FUND PROVIDES EXPOSURE TO A DIVERSIFIED PORTFOLIO OF AUSTRALIAN SMALL INDUSTRIAL COMPANIES.

### FIVE REASONS TO INVEST

- ONE.**

**ACTIVE APPROACH**

Many inefficiencies exist in the small caps market, enabling our team to identify mispriced opportunities.
- TWO.**

**FOCUS ON MINIMISING RISKS**

Our stringent research enables lower risk exposure to quality small cap companies.
- THREE.**

**LIMITED FUND SIZE**

Limiting the size of the Fund helps to maintain a nimble investment approach.
- FOUR.**

**CONSERVATIVE INVESTMENT APPROACH**

The Fund does not invest in loss-making companies.
- FIVE.**

**STRONG TRACK RECORD**

The Fund has a strong track record in up and down markets since inception. The Fund has won numerous awards and is consistently highly rated by researchers.

## PENGANA EMERGING COMPANIES FUND

### FUND FACTS

**APIR CODE**

PER0270AU

**INCEPTION DATE**

1 November 2004

**MINIMUM INVESTMENT**

\$25,000

**RECOMMENDED INVESTMENT TIMEFRAME**

Three or more years

**BENCHMARK**

S&amp;P/ASX Small Ordinaries Accumulation Index

**MANAGEMENT FEE (INCL. GST)**

1.3340% p.a. of the Fund's net asset value

**PERFORMANCE FEE# (INCL. GST)**

20.5% of the performance (after management fees and expenses) above the return of the benchmark, subject to a high water mark and positive performance in the period. Payable six monthly.

**BUY/SELL SPREAD**

0.30% on both applications and withdrawals

**ENTRY/EXIT FEES**

Nil

**FUND PRICING**

Daily

**DISTRIBUTION FREQUENCY**

Twice yearly (June and December)

**FUND CAPACITY**

Approximately 0.5% of the S&amp;P/ASX Small Ordinaries Index capitalisation

**TARGET ASSET ALLOCATION**
Cash 0–10%  
Equities 90–100%
**TYPICAL NUMBER OF STOCKS**

50–60

**AVAILABILITY**
Additional investments from existing investors. Limited access to new investors - contact Client Service at [clientservice@pengana.com](mailto:clientservice@pengana.com) for further details.
**FUND OBJECTIVE**

To obtain returns greater than the S&amp;P/ASX Small Ordinaries Accumulation Index over rolling 3 year periods after fees.

**INVESTMENT PHILOSOPHY**

Pengana is an active stock picker with an underlying belief that smaller companies' shares are often incorrectly priced due to a lack of broker coverage. Pengana will limit the funds under management to approximately 0.5% of the Small Ordinaries Index in order to capitalise on this inefficiency, which is often most evident in less liquid stocks.

The fee structure is heavily geared to performance which aligns the interests of investors with fund managers. With this structure in place the principal motivation for the fund manager is to deliver strong performance above the benchmark.

**INVESTMENT STRATEGY**

Pengana's investment process is centred around a very active company visitation program in the belief that management is the most important factor in assessing investments in the sector. Over time we expect to visit most of the 800 or so companies in our universe.

Qualitative based analysis focuses on management, product/service quality,

competitive advantage, growth prospects and financial position. Favoured stocks are then fully modelled providing the inputs for a standardised cashflow based valuation. We then cross check this valuation with other investment tools such as the Price Earnings ratio, the Enterprise Value/Earnings Before Interest Tax and Amortisation ratio and dividend yields.

As we will only invest in companies we can value with relative confidence, we will not own resource companies, listed property trusts, biotech stocks or loss making stocks.

**KEY BENEFITS**

- Low risk approach to gaining exposure to Australian small cap equities.
- Conservative investment approach
- Strong track record in up and down markets since inception.
- Highly experienced investment team.
- Limited fund size to maintain nimble investment approach.

**FUND PERFORMANCE SINCE INCEPTION**


Net performance figures 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.

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## WHO THE FUND SUITS

- Investors seeking exposure to Australian small cap stocks.
- Investors looking for genuine diversification benefits to other stock holdings.
- Investors seeking a conservative investment style—the Fund does not own resource companies and does not invest in companies that are making losses.
- Investors with an investment time horizon of at least 3–5 years.

**THE INVESTMENT PROCESS FOCUSES ON A VERY ACTIVE COMPANY VISITATION PROGRAM TO ASSESS MANAGEMENT QUALITY AND OVER TIME THE INVESTMENT TEAM WILL VISIT MOST OF THE 800 COMPANIES IN ITS UNIVERSE.**

## INVESTMENT PROCESS



## PORTFOLIO MANAGER'S INTERVIEW

THE EMERGING COMPANIES FUND IS MANAGED BY PORTFOLIO MANAGERS STEVE BLACK AND ED PRENDERGAST

### Q: WHAT IS THE INVESTMENT PHILOSOPHY OF THE FUND?

Black

Our investment philosophy is based on the premise that smaller companies' share prices are often mispriced due to there being limited professional research conducted on them. We are able to uncover these opportunities through a very active company visitation program, visiting most of the 800 companies in our investment universe to understand and assess management quality, product/service quality, competitive advantage and growth prospects.

Given we have so many companies to consider we can afford to be very selective where we invest and accordingly we only invest in companies that we can value with relative confidence and that meet our stringent investment criteria.

### Q: HOW HAVE YOU STRUCTURED THE FUND TO SUPPORT YOUR INVESTMENT PHILOSOPHY?

Prendergast

Capital preservation is always front of mind. We have seen through our experience it is the risks taken that often dictate future returns when investing in the volatile small cap sector.

We don't invest in mining companies or loss making companies which we see as too speculative, given their difficulty to value. Perhaps most importantly, we maintain Fund capacity constraints in order to be nimble, moving in and out of positions as required whilst retaining the ability to invest in companies with small market capitalisations.

## PRINCIPAL PORTFOLIO MANAGERS



**STEVE BLACK**

Senior Fund Manager

Steve is co-manager of the Pengana Emerging Companies Fund, and established the Fund in 2004 with Ed Prendergast.

Along with Ed, Steve co-manages the Fund, sharing responsibilities for research, financial modelling, valuation and portfolio construction.

Steve was formerly a partner of Goldman Sachs JBWere and managed the award-winning JBWere Emerging Leaders Fund for almost seven years, a period over which the Fund delivered an average return of close to 20% p.a.

The Fund was voted the number one emerging companies fund in Australia in 2000 and 2001 by Personal Investor magazine before being closed to new investments in November 2001.

Steve holds a Bachelor of Economics/Commerce from Melbourne University and a Graduate Diploma in Applied Finance (SIA).



**ED PRENDERGAST**

Senior Fund Manager

Ed is the co-manager of the Pengana Emerging Companies Fund, and established the Fund in 2004 with Steve Black.

Prior to joining Pengana, Ed was a Director of Citigroup, and Head of the Small Companies research team.

In total, Ed spent 10 years researching small companies for stockbrokers – primarily at Citigroup and ABN Amro, and was the top-ranked analyst by BRW in 2003 and 2004.

Ed has a Bachelor of Economics from La Trobe University and a Graduate Diploma in Applied Finance (SIA).

# Please refer to Product Disclosure Statement for more details.

Pengana Capital Ltd (ABN 30 103 800 568, Australian financial services license number 226566) is the issuer of units in the Pengana Emerging Companies Fund (ARSN 111 894 510) (the 'Fund'). A product disclosure statement for the Fund is available and can be obtained from our distribution team. A person should obtain a copy of the product disclosure statement and should consider the product disclosure statement carefully before deciding whether to acquire, or to continue to hold, or making any other decision in respect of, the units in the Fund. This report was prepared by Pengana Capital Ltd and does not contain any investment recommendation or investment advice. This report has been prepared without taking account of any person's objectives, financial situation or needs. Therefore, before acting on any information contained within this report a person should consider the appropriateness of the information, having regard to their objectives, financial situation and needs. Neither Pengana Capital Ltd nor its related entities, directors or officers guarantees the performance of, or the repayment of capital or income invested in, the Fund.