

Pengana Emerging Companies Fund

Overview

Pengana seeks to combine the skills of highly experienced small company investors with a limited fund size to provide above market returns over the medium term. Our benchmark is the S&P/ASX Small Ordinaries Accumulation Index. The fund managers are part owners of the business and investors in the fund, providing a strong incentive to perform.

Award Winning Investment Team

A specialist small companies team manages the Fund. Steve Black and Ed Prendergast each have over 10 years of experience researching small companies.

Steve Black managed the award winning JBWere Emerging Leaders Fund for almost 7 years, a period over which the fund delivered an average return of 19% pa. The fund was voted the number one small companies fund in Australia in 2000 and 2001 by Personal Investor magazine before being closed to new investment in Nov 2001. Steve was a partner of Goldman Sachs JBWere before resigning to establish the Pengana Emerging Companies fund in Oct 2004.

Ed Prendergast has over 10 years experience in researching small companies with major stockbroking firms. From 1997 to 2004 he was an analyst at Citigroup and ABN Amro before leaving to establish the Pengana Emerging Companies Fund. Ed was ranked the number one small companies broking analyst in Australia in both 2003 and 2004 by BRW magazine.

Investment Philosophy

Pengana is an active stock picker with an underlying belief that smaller companies' share prices are often incorrectly priced due to a lack of broker coverage. Pengana will limit the funds under management to \$300m¹ in order to capitalise on this inefficiency, which is often greatest in less liquid stocks.

Our fee structure is heavily geared to performance which aligns the interests of investors with fund managers. We have chosen a lower Ongoing Fee Measure (previously known as the MER) for the fund and added a performance based fee². With this structure in place the principal motivation for a fund manager is to deliver strong performance above its benchmark.

Once the fund is closed to new investments, this fee structure (and limited fund size) ensures the fund manager remains primarily incentivised on superior performance.

Stock Selection Process


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. Of the near 700 companies we estimate to be in the fund's investment universe we will seek to own between 30 and 50 in the portfolio. Over time we expect to visit most of these 700 companies - indeed, in the first 3 months of operation we have visited almost 100 companies. Qualitative based analysis focuses on management, product/service quality, competitive advantage, growth prospects and financial position. Favoured stocks are then fully modeled providing the inputs for a standardised cashflow based valuation. We then cross check this valuation with other investment tools such as PE and EV/EBITA ratios and dividend yields.

As we will only invest in companies we can value with relative confidence we are unlikely to own resource companies or biotech stocks at this time.

We seek to lessen portfolio risk by holding between 30 and 50 stocks and having a maximum weight in any one stock of 7% above index weight. The maximum cash holding of the fund is 25%, however the managers will aim to keep this under 5%.

Notes

1. The fund will raise no more than 0.5% of the S&P/ASX Small Ordinaries Accumulation Index. This currently approximates \$300m.
2. The performance fee is 20% of the performance above the S&P/ASX Small Ordinaries Accumulation Index



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Fund Overview

Fund Investments	Securities listed on the Australian Stock Exchange (but not within the S&P/ASX 50 Leaders Index) and New Zealand
Fund Benchmark	S&P/ASX Small Ordinaries Accumulation Index
Fund Aim	To obtain returns greater than the Index over rolling 3 yr periods
Income Distribution	Half yearly (end June and December)
Entry/exit Fee	Nil
Ongoing Fee Measure (OGFM)	1.3325% ²
Performance Fee	20% above the S&P/ASX Small Ordinaries Accumulation Index ³
Launch Date	1 November 2004
Fund Raising	0.5% of the S&P/ASX Small Ordinaries Accumulation Index capitalisation. This currently represents around \$300 million.
Website	www.pengana.com.au
Contact Details	Martin Allison, 09-919 7407, Martin.Allison@abnamrocraigs.com .

Notes

1. All percentages are on a GST inclusive basis.
2. The OGFM is capped at 1.3325% (including GST less applicable reduced input tax credits) of average annual Net Asset Value of the Fund for the life of the Product Disclosure Statement. This capped amount does not incorporate an allowance for a performance fee or abnormal expenses, both of which may be payable in excess of the capped amount.
3. Please refer to the Product Disclosure Statement for a more detailed explanation.

Performance

Total return performance for periods ending 30 June 2005

	3 mths %	Since inception* %	1 yr %	3 yrs %
Pengana Emerging Companies Fund	-0.7	13.9	n/a	n/a
S&P/ASX Small Ordinaries Acc Index	2.6	7.8	n/a	n/a
Outperformance of benchmark	-3.2	6.1	n/a	n/a

* Since Nov 1, 2004

Total return performance figures are derived from the Manager's records and are shown after the management fees, but before performance fees, and assume reinvestment of income.

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