



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.

The fund now has over \$70m invested, and is rated “Highly Recommended” by Lonsec and “Strong Buy” by **InvestorWeb**, adding to positive recommendations by **Morningstar and Zenith**. The fund is approved for **BT and Macquarie Wrap platforms**, and various margin lending providers.

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 (around 10% pa above the fund’s benchmark). 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 \$400m¹ 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 40 and 50 in the portfolio. Over time we expect to visit most of these 700 companies - indeed, in the first 16 months of operation we have visited over 400 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 40 and 50 stocks and having a maximum weight in any one stock of 7% above index weight. We will seek to hold a minimal cash holding in the fund at all times.

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

Pengana Capital Limited ABN 30 103 800 568
Level 29, 20 Bond St, **Sydney**, 2000
Phone 02 8524 9900 **Fax** 02 8524 9911
Level 31 360 Collins Street **Melbourne** VIC 3000
Phone 03 8602 0300 **Fax** 03 9600 0911

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Fund Overview

Fund Investments	Securities listed on the ASX (outside the S&P/ASX 50 Leaders Index) and New Zealand
Fund Benchmark	S&P/ASX Small Ordinaries Accumulation Index
Income Distribution	Half yearly (end June and December)
Entry/exit Fee	Nil
Ongoing Fee Measure (OGFM)	1.3325% ¹
Performance Fee	20% of the performance above the S&P/ASX Small Ord Acc Index ²
Launch Date	1 November 2004
Fund Raising	0.5% of the S&P/ASX Small Ordinaries Accumulation Index capitalisation. This currently represents around \$400 million.
Website	www.pengana.com.au
Contact Details	Steve Black and Ed Prendergast on (03) 8602 0300 Martin Allison (NZ distribution) - Martin.Allison@abnamrocraigs.com

1. 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 of which may be payable in excess of the capped amount. Please refer to the PDS for a more detailed explanation.

Performance

Total return performance for periods ending 28 February 2006

	3 months	6 months	1 Year	Since inception*
Pengana Emerging Companies Fund	11.6%	18.3%	24.1%	46.4%
S&P/ASX Small Ordinaries Acc Index	7.5%	11.1%	22.5%	29.8%
Outperformance of benchmark	4.0%	7.1%	1.7%	16.6%
Pengana Emerging Companies Fund	11.6%	18.3%	24.1%	46.4%
S&P/ASX Small Industrials Acc Index**	5.1%	9.2%	19.8%	25.3%
Outperformance of benchmark	6.4%	9.1%	4.3%	21.1%

* Since Nov 1, 2004

** The fund does not invest in resource stocks

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

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