



Pengana Australian Equities Core Fund

July 2008 Update

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The Pengana Australian Equities Core Fund aims to provide investors with an annualised return of 12 to 15%¹ before fees over the medium term via a concentrated core portfolio of equity and interest bearing holdings. The Fund is managed out of Sydney, Australia and uses fundamental research to evaluate investments capable of generating the target return over the medium term.

Fund Performance

The Fund has adopted a cautious approach, ending the month with cash levels of 47%.

The Fund's top 5 holdings are BHP, Telstra, Westpac Bank, Woolworths and Seek.

The Fund's top performing holdings were Westpac Bank, Telstra and David Jones, while its exposure to Aristocrat, BHP and ANZ Bank were the major detractors.

Net Returns to 31 July 2008 ²	
1 Month	-1.0%
3 Months	n/a
Since inception ³	-1.0%

Market Review

The Australian equity market ended the month of July 2008 down -5.2% driven by a sharp pull back in the Materials (-10.3%) and Energy (-13.7%) sectors. The better performing sectors were Telcos (5.9%), Utilities (4.4%) and Industrials (4.0%). During the month the banking sector dominated negative news as both ANZ and NAB provided earnings warnings following further write downs of credit exposures.

Domestic economic indicators continued to deteriorate as both consumer and business confidence surveys hit low points not seen since the last recession. Importantly, the Chinese GDP growth

¹ This is not intended to be a forecast, but merely an indication of what the Fund aims to achieve over the medium to long term. The Fund may not be successful in meeting this objective. Returns are not guaranteed.

² Total return performance figures are derived from Manager's records and are shown after all fees, and assume reinvestment of income. Investments can go up and down. Past performance is not a reliable indicator of future performance.

³ Inception date: 30 June 2008

readings highlighted a potential slowdown, raising the possibility of lower oil and metal demand and therefore an easing in inflationary pressures.

With the major finance underwriters of the US mortgage market – Fannie Mae and Freddie Mac – demonstrating the dire need for a bail out from the Fed, the outlook for the US housing market and consumers remains poor. Consequently the US market fell to a new low before bouncing on the back of lower oil prices.

While it remains difficult to see how the US economy can avoid a recession as the credit crisis hits main street, the lower energy prices and a stronger US\$ may provide some temporary relief.

Investment Outlook

The global hangover from the extended period of low interest rates, easy access to credit and mispricing of risk is expected to take some time to unwind. With the US having relinquished its leadership role as the global growth engine, investors are questioning China's ability to maintain its robust demand for hard and soft commodities. Consequently, the sharp pullback in commodity prices has important positive implications for a beaten up industrial sector.

Domestically, the potential flow through of lower interest rates and petrol prices as an improvement to disposable income, industrial company input costs and inflation is non-trivial.

Value is emerging in those consumer-staple based companies with good management, dominant market shares, pricing power and balance sheet capacity. However, the major risk of whether the average consumer can stay employed long enough to deleverage his personal balance sheet remains.

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