

# Pengana Australian Equities Core Fund September 2008 Update



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## Fund Description

The Pengana Australian Equities Core Fund aims to provide investors with an annualised return of 12 to 15%<sup>1</sup> 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 Features

<b>Style</b>	Fundamental	<b>Management Fees<sup>2</sup> (monthly)</b>	1.00% p.a. of NAV
<b>Benchmark</b>	The weighted average of the target Australian Cash Rate used by the RBA	<b>Performance Fees<sup>2</sup> (quarterly)</b>	10% of investment surpluses without impacting on cash return, with standard high water mark
<b>Investors</b>	Wholesale Clients only	<b>Minimum Initial Investment</b>	A\$100,000
<b>Inception Date</b>	30 June 2008	<b>AUM at Month End</b>	A\$4.7m
<b>Identification Code(s)</b>	None	<b>Application/Redemption Price at Month End</b>	Application: A\$0.9782 Redemption: A\$0.9734

## Fund Commentary

### Fund Performance (A\$, net of fees)<sup>3</sup>

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2008	-	-	-	-	-	-	-1.0%	3.5%	-4.7%				<b>-2.4%</b>

The Fund has adopted a cautious approach, ending the month with cash levels of 48% up from the 45% as at the beginning of the month.

The proceeds from the sale of the Fund's holdings in Macmahon, Fairfax and Woolworths were partially applied to new holdings in Sonic Healthcare and Computershare.

The Fund's top five holdings are Telstra, Computershare, MCG, Primary Healthcare and BHP.

The Fund's top performing holdings were MAH, FXJ and IAG, while its exposure to the miners BHP, RIO and Mount Gibson, were the major detractors.

### Net Returns to 30 September 2008<sup>3</sup>

	Pengana	Cash Rate	All Ordinaries
<b>1 Month</b>	-4.7%	0.6%	-10.6%
<b>3 Months</b>	-2.4%	1.7%	-11.9%
<b>Since Inception<sup>4</sup></b>	-2.4%	1.7%	-11.9%

## Market Commentary

### Market Review

The weak quarterly performance by the Australian All Ordinaries was led down by Materials (-31.4%), Energy (-18.8%) and Utilities (-11.2%). Healthcare (8.3%) was the only positive performing sector over the three month period.

September was characterised by extremely volatile financial markets with a bias to the downside. The increasingly negative global sentiment reflects a deepening fear that the credit crisis has contaminated the real global economy, and raised the probability of a global recession.

<sup>1</sup> 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.

<sup>2</sup> Plus GST and net of reduced input tax credits. Please refer to the information memorandum for a more detailed explanation.

<sup>3</sup> 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.

<sup>4</sup> Inception date: 30 June 2008

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The sombre outlook for commodity demand and the turnaround in domestic monetary policy (lower interest rates) saw the A\$/US\$ exchange rate down 17% for the quarter. The A\$ remains under pressure which is exacerbated as global investors are forced to liquidate positions and repatriate their funds to meet redemption calls.

It is hard to believe that many institutions are not suffering from severe whiplash given the recent volatility in the global equity, fixed interest, commodity and currency markets. While resilient business models, competent management, strong balance sheets and cash flow remain the essential elements for constructing the portfolio, it is becoming increasingly important to be aware of flows due to non-fundamental factors. Forced selling due to redemptions, regulatory changes and shattered investor confidence will continue to provide significant deviations from fair value in share prices.

And all this against a backdrop of unprecedented government intervention on a global level. Recent events include: Nationalisation of significant portions of the global banking system, the imposition on the US tax payer as the buyer of last resort, global official interest rates cuts and the flooding of the wholesale market with Reserve Bank liquidity.

Domestically the Australian economy remains in reasonable shape. The high level of real interest rates, the robust fiscal surplus and improving terms of trade provide some measure of protection against the gloomy global outlook. However, the global credit crunch and global deleveraging in particular has already impacted negatively on consumer confidence, retail spending and asset prices.

### Investment Outlook

The fallout from the extended period of low interest rates, easy access to credit and mispricing of risk is currently working its way through phase one. The outcome of the massive and coordinated global government intervention has yet to become clear. A significant potential implication is that those companies that do survive the next 12 months will find the cost of finance significantly cheaper.

Value is emerging in a number of industrial and financial companies with the characteristics of good management, dominant market shares, pricing power and balance sheet capacity. The portfolio remains focused on companies with low levels of exposure to the economic cycle (consumer non discretionary and Healthcare), strong balance sheets and competent management.

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