



Pengana Australian Equities Core Fund

August 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 45%.

The Fund's top five holdings are BHP, Telstra, MCG, CSL and Westpac Bank.

The Fund's top performing holdings were Mitchell Communications, CSL, Westpac Bank and Woolworths, while its exposure to ANZ Bank, Telstra and Sino Gold were the major detractors.

Net Returns to 31 August 08	Pengana ²	Cash Rate	All Ordinaries
1 Month	3.5%	0.6%	4.0%
Since inception³	2.4%	1.2%	-1.4%

Market Review

The Australian equity market ended the month of August 2008 up 4.0%. The sectoral performances were led by Healthcare (+17%), Consumer Disc (+9%) and Property Trusts (+9%). Telcos (-4%) and Utilities (-1%) were the only negative sectors.

A feature of August was the volatile see-sawing by Financials and Resources, highlighting the lack of conviction from investors and the dominance of hedge funds in market activity. It is hard to believe that many of these players are not suffering from severe whiplash given the regular and violent moves in both sectors. The potential consequences of these hedge funds blowing up/closing down may create large distortions if they are forced to unwind their positions.

And all this against a backdrop of a deteriorating US housing market: It is difficult to see a solution to the Fannie Mae and Freddie Mac insolvencies that doesn't involve years of pain for the US economy.

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

Domestically commodity prices had significant falls as Chinese economic data points suggested a slowdown in the last remaining engine for global growth. The lower oil and soft commodity prices opened the way for a turnaround in monetary policy with the Reserve Bank initiating a downward trend in interest rates.

Lower oil prices, the start of a lower interest rate cycle and a sliding A\$ provided the fuel for a relief rally in the Australian Equity market. Investors focussed on US\$ earnings based stocks (evidenced by the strength of the healthcare sector), and beneficiaries of lower interest rates (consumer discretionary stocks rose sharply).

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 Fed bailout of the housing market 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 the industrial sectors.

Domestically, the potential impact of lower interest rates and commodity prices on disposable income, industrial company input costs and inflation is non-trivial. In addition, the sharply lower A\$ has provided further impetus to an already excellent terms of trade.

Value is emerging in a number of industrial companies (and more recently selected Resource stocks) with the characteristics of good management, dominant market share, pricing power and balance sheet capacity. However, the risk of structural damage to the domestic economy remains high should widespread unemployment curtail the average consumer's ability to deleverage his personal balance sheet.

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