

# Pengana Australian Equities Core Fund

## November 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\$4.2m
<b>Identification Code(s)</b>	None	<b>Application/Redemption Price at Month End</b>	Application: A\$0.8430 Redemption: A\$0.8388

### 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%	-9.0%	-5.3		<b>-15.9%</b>

The Fund, while maintaining a cautious approach, took advantage of the very weak equity prices to increase the equity exposure from 62% as at the beginning of the month to close at 67%. The main driver of the increased exposure was the availability of deep discount placements in AMP, Sonic Healthcare, Mirvac Group, QBE and NAB.

The Fund disposed of its holdings in AXA, AMP and Mirvac, reduced its exposure to Sonic Healthcare after receiving a large allocation of shares in the deep discount placement, and trimmed its holding in Metcash. All of these transactions occurred at healthy premiums to their acquisition prices

As at 30<sup>th</sup> November 2008, the Fund's top five holdings were Telstra, Primary Healthcare, Sonic Healthcare, BHP and IAG.

The Fund's top performing holdings were BHP and the new holdings in QBE and Mirvac Group, while its exposure to MCG, Computershare and Rio Tinto were the major detractors.

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

	Pengana	Cash Rate	All Ordinaries
<b>1 Month</b>	-5.3%	0.4%	-7.2%
<b>3 Months</b>	-17.9%	1.5%	-28.6%
<b>Since Inception<sup>4</sup></b>	-15.9%	2.7%	-29.6%

### Market Commentary

#### Market Review

The very weak monthly performance by the Australian All Ordinaries was led down by Consumer Discretionary (-15%), Industrials (-11%) and Financials (-10%). For a second consecutive month there were no positive sectors with Telcos (-1%) and Utilities (-2%) exhibiting their defensive characteristics.

<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 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 month under review saw the real economy react negatively to the credit gridlock and abysmal levels in business and consumer confidence. While the global coordinated monetary easing (i.e. Reserve Bank interest rate cuts) has resulted in lower interest rates, the availability of credit to companies remained problematic. Globally businesses have begun to respond to reduced demand (consumers remain on strike) by cutting capital expenditure plans and retrenching staff.

The major asset classes continue to experience record levels of volatility as investor sentiment ricochets between focussing on the gloomy medium term outlook for the real economy and the anticipation of a "bottom" in the financial markets. Investors are being forced to recognise that a significant addendum to the fiscal and monetary tools is "Time". These high levels of uncertainty and volatility will only subside as time allows the redemptions, deleverage and hidden risks to work their way through the global economy.

Domestically the speed of the deterioration in the Australian economy has been remarkable. Most companies took advantage of their AGM platforms to forewarn shareholders by lowering expectations and reducing earnings guidance. Importantly it appears that their access to credit remains constrained. Banks have ratcheted up their credit policies (by more than just a few notches) and are now actively attempting to cajole their customers into improving their balance sheets (by selling assets, cutting dividends and/or capital expenditure and raising equity). Access to foreign capital is becoming a bigger issue as foreign banks withdraw from non-home markets to focus on their domestic businesses.

In an attempt to revive the economy (some would say "resuscitate") the Australian Reserve Bank has cut interest rates by a full 3% during the last three months. This, combined with sharply lower petrol prices, may alleviate a portion of the pain to be felt as domestic layoffs gain momentum.

The weaker Australian dollar provides some price protection for the Australian export sector however the uncertain outlook for Chinese demand has reduced visibility in forecasting company profits.

### 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 this massive and coordinated global government intervention will take time to play out. 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. Several companies have taken their medicine early by coming to the market for additional equity, allowing the Fund exposure to strong balance sheets at a significant discount.

### Contact Details

Pengana Capital Limited • Level 29, 20 Bond Street, Sydney, NSW 2000, Australia • T +61 2 8524 9900 • F +61 2 8524 9901  
ABN 30 103 800 568, AFSL 226566

For further information, please visit our website at [www.pengana.com](http://www.pengana.com) or contact:

**Institutional Clients:** Denis Carroll, +61 2 8524 9974, [denis.carroll@pengana.com](mailto:denis.carroll@pengana.com)

**Private Clients:** Juliet Dunworth, +61 2 8524 9984, [juliet.dunworth@pengana.com](mailto:juliet.dunworth@pengana.com)

**Advisors:** Justin Brooks, +61 3 8663 7906, [justin.brooks@pengana.com](mailto:justin.brooks@pengana.com)