Pengana Australian Equities Core Fund
February 2009 Update

Fund Description

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 Features

Style	Fundamental	**Management Fees [2] (monthly)**	1.00% p.a. of NAV
Benchmark	The weighted average of the target Australian Cash Rate used by the RBA	**Performance Fees [2] (quarterly)**	10% of investment surpluses without impacting on cash return, with standard high water mark
Investors	Wholesale Clients only	**Minimum Initial Investment**	A$100,000
Inception Date	30 June 2008	**AUM at Month End**	A$4.6m
Identification Code(s)	None	**Application/Redemption Price at Month End**	Application :A$0.8656 Redemption:A$0.8612

Fund Commentary

Fund Performance (A$, net of fees) [3]													
	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	**FYTD**
2008/9	-1.0%	3.5%	-4.7%	-9.0%	-5.3	3.9%	0.2%	-1.4%	-	-	-	-	**-13.7%**

The Fund generated a return of -1.4% during February against a backdrop of another weak performance by the Australian All Ordinaries (-4.3%). As at 28th February 2009, cash made up 44% of the Fund's NTA, increasing the cautious stance

For the three Months ended 28th February 2009, the fund has generated a positive return of 2.7% against the RBA cash rate of 1.0% and a large negative return of -9.1% by the Australian All Ordinaries

The Fund participated in deep discount placements by Westfield Holdings and IAG Ltd. Both of these were subsequently sold at healthy premiums. In addition the Fund increased its exposure to Tabcorp Holdings, Westpac Bank and Metcash.

The ongoing upward rerating of defensive stocks, allowed the Fund to further reduce its exposure to Woolworths, Primary Health Care, CSL, and Duet. In addition the entire holding of QBE was sold following its poor results.

As at 28th February 2009 the top five holdings by value in the Fund were: Telstra, Metcash, Westpac Bank, NAB and Tabcorp. The Fund's top performing holdings for the month were: CBA, Westpac, Tabcorp and Mermaid Marine while its exposures to QBE, Telstra, Duet and IAG were the major detractors.

Net Returns to 31 February 2009 [3]			
	Pengana	**Cash Rate**	**All Ordinaries**
1 Month	-1.4%	0.3%	-4.3%
3 Months	2.7%	1.0%	-9.1%
6 Months	-15.7%	2.5%	-35.1%
Since Inception [4]	-13.7%	3.7%	-36.%

[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] Plus GST and net of reduced input tax credits. Please refer to the information memorandum for a more detailed explanation.

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

[4] Inception date: 30 June 2008

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Market Commentary

Market Review

Investor uncertainty was highlighted by the mixed performances by the various cyclical and defensive equity sectors for the month. The Australian All Ordinaries extended its weak start to the 2009 calendar year during February closing down 4.3%. The weakest sectors were the Industrials (-16%), Real Estate (-12%) and Utilities (-6%) while the better performing sectors comprised; Energy (7%), Consumer Staples (5%) and Information Technology (4%).

The recent RBA cuts to its official cash rate of 400bps in 5 months have provided significant relief to the holders of residential mortgages. Furthermore the Government handouts have combined with lower petrol prices and significant retail sales to improve household disposable income. However, the increasing uncertainty surrounding job security and falling asset prices continues to weigh heavily on consumer sentiment resulting in drastic changes to consumer behaviour. In short, the average consumer is limiting spending to mainly non-discretionary items.

At the corporate level, the interest rate cuts have provided relief from the ever widening credit spreads (the additional impost over and above the RBA cash rate that banks are charging their customers for the privilege of borrowing money). However, caught between the lack of availability of credit and declining revenues, company management are being forced into wholesale dividend cuts and equity raisings. Cuts to capital expenditure plans and payrolls have become common management agenda topics.

The extent of deleveraging occurring at both the consumer and corporate levels (and its negative impact on the velocity of money), is forcing monetary authorities (both domestically and internationally) to announce ever increasing "stimulus packages" in the hope of improving confidence levels and counterbalancing the sharp decline in spending from the private sector. However, both political and logistical obstacles are likely to delay the impact of these programs, creating a period where the effects of deleveraging will have serious consequences for companies and individuals with low margins of safety.

Unemployment levels continue to rise sharply in the US and other economies. Domestic indications for job losses are getting significantly worse. Furthermore, the relentless bad news ("trumpeted by every daily newspaper") from Australia's trading partners, global financial companies and wholesale funding sources continues to weigh heavily on confidence levels as the real economy responds to the global credit gridlock.

In reality ,the major fiscal and monetary authorities have yet to provide a realistic solution to the global financial crisis in spite of the substantial stimulus packages being rammed through their legislative bodies. Investors are being forced to recognise that the 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.

At a more micro level, most companies are still grappling with the sudden dissipation of available credit. As capital becomes an increasingly scarce commodity the "kicking boot" has moved from the feet of the corporate customer (which used to be able to set its own terms for credit) to that of the 4 major domestic banks. Credit policies are being ratcheted up (by more than just a few notches) along with fees and margins. The stricter lending environment is also allowing the banks to cajole their customers into improving their balance sheets (by selling assets, cutting dividends and/or capital expenditure and raising equity). Importantly access to substitute markets (especially foreign capital) has all but shut down as foreign banks withdraw from the Australian market to focus on their domestic businesses. In short, new business has much better margins for the Banks but may not make up for the legacy business written during more optimistic times.

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. Interestingly phase two started aggressively as many of the top 20 (by market cap) Australian companies raised equity through deeply discounted placements. Investors were able to access quality companies with much improved balance sheets at significantly discounted share prices by stumping up over $34 billion during the last 6 months. The Fund was an active participant of these placements.

Value is emerging in a number of industrial and financial companies with; 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, Healthcare, Utilities), strong balance sheets and competent management. Caution is required as many of these opportunities have dissipated as they become "crowded trades".

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The recent reporting season provided a gloomy picture of a challenging domestic environment with management increasingly unsure of the future and their ability to manage their way through this downturn. The focus has shifted from grow to survival.

The Fund has increased its liquidity from already high levels to cash of 44% of NTA. However, we remain increasingly vigilant for attractive investment opportunities as sentiment, when almost universally gloomy, does provide the potential for being a powerful indicator of value.

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