

Pengana Australian Equities Core Fund

November 2009 Update, by Rhett Kessler



1 of 2

Fund Description

The Pengana Australian Equities Core Fund aims to provide investors with an annualised return of 12 to 15%¹ 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

Application Price at Month End	A\$1.1668	Redemption Price at Month End	A\$1.1610
Style	Fundamental	FUM at Month End	A\$10.6m
Benchmark	The weighted average of the target Australian Cash Rate used by the RBA	Management Fees² (monthly)	1.00% p.a. of NAV
Investors	Wholesale Clients only	Performance Fees² (quarterly)	10% of increase in net asset value subject to the Australian Cash Rate and High Water Mark
Inception Date	30 June 2008	Minimum Initial Investment	A\$100,000

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%	7.9%	4.4%	2.2%	3.7%	3.0%
2009/10	3.5%	6.1%	3.8%	1.2%	1.0%								16.5%

The Fund generated a satisfactory return of 1.0%³ after all fees and costs during November against the backdrop of a 1.9% performance by the Australian All Ordinaries and the prevailing cash rate of 0.3%.

As at the 30th of November, the effective cash position of the Fund's NTA stands at 21%. Importantly the Fund's investment strategy remains focussed on companies with transparent and resilient business models, run by competent management and capable of generating satisfactory returns at the current prices.

The top 5 contributors to the month's performance included three of the Fund's four precious metal holdings: Aquarius Platinum, Lihir Gold and Sino Gold. The other two were industrial companies, RCG Group and Telstra. The largest detractors were Graincorp, Westpac, AWB, Newscorp and Primary Healthcare. Although no new holdings were added during the month, several holdings were increased including Customers, Graincorp, Newscorp, Ramsay Healthcare and Resmed. The Fund's holdings in CSL and Primary Healthcare were sold.

As at 30th November 2009 the top five holdings by value in the Fund were: Telstra, CBA, Westpac, Graincorp and Ramsay Healthcare.

Net Returns to 30th November 2009³

	Pengana	Cash Rate	All Ordinaries
1 Month	1.0%	0.3%	1.9%
3 Months	6.2%	0.8%	6.1%
6 Months	20.9%	1.5%	26.3%
12 Months	42.7%	3.3%	34.5%
17 Months since Inception	20.0%	6.0%	-5.4%
Annualised return Inception	13.7%	4.2%	-3.8%

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 Mangers' records and are shown after all fees and expenses, and assume reinvestment of distributions. Investments can go up and down. Past performance is not a reliable indicator of future performance. Inception date: 30 June 2008.

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2 of 2

Market Commentary

Market Review

The ASX All Ords Accumulation Index reversed its decline of October by finishing 1.9% higher during November. Comments from the US Federal Reserve reiterating their view that interest rates would remain low for an extended period sparked a sharp rally in most commodities and precious metals. Accordingly the Materials sector (8.9%) was the dominant driver of the month's positive performance. The Telecommunications (2%) and Consumer Staples (1%) sectors also made small positive contributions. The Banks (-3.8%) and Industrials (-1.7%) gave up a small part of their large recent gains. Currency movements were a strong influence over markets in November as the US dollar remained under pressure, reaching a 14-year low against the yen and extending the A\$ rally to 45% off its recent lows.

The medium term economic outlook for OECD Group countries is for an extended period of low growth (sub 2%) as consumer and now public sector deleveraging limits their ability to bounce back from the recent low point of the cycle. Asia (ex Japan) and China in particular are expected to continue growing at robust levels as governments take advantage of their massive reserves to maintain high levels of economic stimulus. The sharply weaker US\$ is forcing investors to seek refuge in hard assets, namely commodities, precious metals and equities. Given the outlook for further US\$ debt issuance and the inflationary risks that come with loose monetary policy one has to wonder why the interest rate curve is not steeper (and long bond prices are not weaker).

Domestically the outlook continues to surprise on the upside. Australia's economic stability has captured the world's attention for several reasons: Our financial institutions have demonstrated their robustness; unemployment continues to defy pessimistic expectations, population growth is expected to drive medium term GDP, our proximity to China coupled with the scale and mix of natural resources is likely to underpin long term economic activity. These factors have allowed the Reserve Bank to begin the process of raising interest rates from unsustainably low levels. They have also been reflected in the sharply higher A\$.

Investment Outlook

While the direction of the overall market is difficult to predict, I am increasingly confident that the environment for profitable stock selection continues to improve. The impact of the recent volatility and negative returns has created a less crowded market, priced at more realistic levels.

Many market participants seem obsessed by whether the "market" is headed higher or lower. The Pengana Australian Equities Core Fund continues to focus on finding companies whose underlying earnings and cash flows will be substantially higher in the future, irrespective of whether the markets are higher or lower.

One example is represented by the Fund's acquisition of a significant holding in Mermaid Marine. As a focussed provider of chartered vessels and services to the offshore gas industry in North West Australia, this company has built a rapidly growing and profitable business with significant barriers to entry. The competent management team have provided shareholders with a high quality exposure to the burgeoning offshore gas exploration and development industry.

Other examples of this trend can be found in several defensive companies with competent management, dominant market shares, pricing power and robust balance sheets. Investors appear to be deserting these companies for the more leveraged plays at a time when the impact of economic Darwinism is just beginning to play out.

The Fund continues to take advantage of the value emerging in these "boring and defensive" sectors to increase its equity investments, particularly in the Healthcare, Agricultural and Banking sectors.

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