Pengana Australian Equities Core Fund
April 2010 Update, by Rhett Kessler

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$1.2044	**Redemption Price at Month End**	A$1.1984
Style	Fundamental	**FUM at Month End**	A$16.0m
Investors	Wholesale Clients only	**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 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%	2.5%	-3.6%	1.1%	3.6%	-0.2%			**20.2%**

The Fund's return for April was -0.2%[3] after all fees and costs during March. By way of comparison the Australian All Ordinaries was down -1.2% for the month and the prevailing cash rate during April was 0.3%. **For the 22 months since inception the Fund has protected capital and provided investors with a satisfactory total return of 23.8% (annualised 12.4%[3]) versus the 7.8% cash rate (4.2% annualised) and a negative market return by the Australian All Ordinaries of –1.6% (-0.9% annualised).**

As at the 30th of April, the effective cash position of the Fund's NTA stands at 17%. 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. (Note that the effective cash position is significantly higher at **24**% due to the large cash inflows from new investors on the 1st of May 2010.)

Large positive contributors to the month's performance were News Corporation, Telstra, Westfield Group, Commonwealth Bank and Mitchell Communications Group. The largest detractors were Customers, Graincorp, Downer Edi, Tox and RCG Group.

The Fund acquired one new holding, McMillan Shakespeare. A significant portion of the strong inflows were applied to increase some of the existing holdings in the Fund. These included: NAB, Westfield, NIB Holdings and Aquarius Platinum. The Fund trimmed its holdings in Platinum Australia and Graincorp.

As at 30th April 2010 the top five holdings by value in the Fund were: CBA, Westpac, NAB, News Corporation and NIB Holdings.

Net Returns to 30th April 2010 [3]			
	Pengana	**Cash Rate**	**All Ordinaries**
1 Month	-0.2%	0.3%	-1.2%
3 Months	4.5%	0.9%	6.5%
6 Months	4.3%	1.9%	6.0%
12 Months	27.3%	3.4%	34.2%
22 Months since Inception	**23.8%**	**7.8%**	**-1.6%**
Annualised return Inception	**12.4%**	**4.2%**	**-0.9%**

[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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Market Commentary

Market Review

The ASX All Ordinaries Accumulation Index recorded its second monthly decline for 2010 generating a -1.2% return during April. The Resource sector reversed some of its prior gains with concerns over global growth being overshadowed by the anticipated Resource Reserve Tax. Telecommunications (+6%), REITS (+4%) and Banks (+0%) were the only positive sectors while Healthcare (-7%) Consumer Staples (-4%) and Materials (-4%) dragged the market lower.

The impact of the 5th rate hike in this tightening cycle (to 4.25%) by the Reserve Bank highlighted the increased risk of inflation following a year of very cheap money, a robust resource sector, low unemployment and record house prices across Australia. In direct contrast the outlook for the retail sector has become challenging, as last year's government stimulus makes like for like sales comparisons difficult.

Importantly it should be noted that global investors are finding the resilience of the Australia economy hard to believe given the ongoing structural challenges in their home economies. This scepticism has been exaggerated by sovereign risk following the government's proposed retrospective taxes on resource companies.

Investment Outlook

The medium term economic outlook for OECD Group countries is for an extended period of low growth (sub 2%). The broader European community has been forced to bail out its weaker (and less fiscally disciplined) members with a massive package that could lower even this bleak medium term outlook. 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.

This environment should allow Australia to leverage its competitive advantage in providing high quality, low cost coal and iron ore volumes to these nearby markets. However, the recent inflationary data out of China has provided a catalyst for an indefinite pause in Chinese bank lending. **In addition, the complex tiers of Chinese government and opaque levels of debt at every level create uncertainty around the sustainability of Chinese growth at these rates.**

Domestically, the underlying economy remains on an expansionary path assisted by a positive backdrop of: a stable financial system; unemployment levels which continue to defy pessimistic expectations, above trend population growth, the proximity to Asia and China in particular coupled with the scale and mix of natural resources remains likely to underpin long term economic activity. These factors have allowed the Reserve Bank to accelerate the process of raising interest rates from unsustainably low levels. **However, the hangover from last year's stimulus and its impact on this quarter's retail sales is highlighting the need for caution**.

The medium term outlook for the underlying Australian and major global economies continues to improve. Several economic fundamentals, including unemployment levels, credit spreads (with the exception of Europe), housing starts and retail sales have generally stabilised providing more clarity around future earnings risk. However valuation multiples have also increased sharply, particularly in the economically sensitive sectors. Consequently, the overall investment risk remains high.

Many market participants seem obsessed by whether the "market" is headed higher or lower. The Pengana Australian Equities Core Fund continues to focus on identifying companies with competent management and resilient business models that can take advantage of secular trends to generate significantly higher earnings and cash flows in the future, irrespective of whether the markets are higher or lower.

In addition the Fund has successfully employed three risk mitigation strategies. Firstly, a high level of cash resulting from a dearth of compelling opportunities has provided the firepower to take advantage of the value emerging from sharply lower share prices. Secondly, a focus on acquiring good companies with non-Australian dollar earnings streams at a significant "discount" due to a robust A$ above US$0.93. Thirdly, hedging the domestic economy's exposure to Chinese growth by buying "insurance" via BHP puts. This put was implemented two months ago with the significantly higher BHP share price and lower volatility levels making for an attractively priced insurance policy.

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

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