

Pengana Australian Equities Core Fund

November 2010 Update, by Rhett Kessler



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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 principally listed Australian securities. 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.

The Fund's management team would like to wish its clients and all readers of this newsletter an enjoyable and safe festive season.

Fund Features

Application Price at Month End	A\$1.2395	Redemption Price at Month End	A\$1.2333
Style	Fundamental	FUM at Month End	A\$21.2m
Investors	Retail & Wholesale Clients	Management Fees	1.025% p.a. of NAV (including GST, net of RITC)
Benchmark	The average of the daily target Australian Cash Rate used by the RBA	Performance Fees (quarterly)	10.25% (including GST, net of RITC) 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\$20,000

Fund Commentary

Fund Performance (A\$, net of fees) ²													
	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%	-4.0%	-2.5 %	12.5%
2010/11	5.1%	1.1%	3.6%	1.8%	-0.1%								11.8%

The Fund generated a flat return of -0.1%² during November after all fees and costs. By way of comparison the Australian All Ordinaries was down -0.7% for the month and the prevailing cash rate during November was 0.3%.

For the 29 months since inception the Fund has protected capital and provided investors with a very satisfactory total annualised return of 11.3% versus the cash rate (4.2% annualised) and the negative market return generated by the Australian All Ordinaries (-1.0% annualised).

As at the 30th of November, the cash portion of the Fund's NTA stands at **22%**. 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.

Large positive contributors to the month's performance included Credit Corp, Seven Group Holdings, and McMillan Shakespeare. The larger detractors included ANZ, Graincorp and News Corporation.

The Fund added three new holdings, namely Telstra, Westfield Retail Trust and CSG Group. Additional purchases in existing holdings included CBA, Customers, NIB Holdings, News Corporation and Salmat. The Fund disposed off its holdings in Tox and Westpac while also trimming its exposures to Ramsay Healthcare.

As at 30th November 2010 the top five holdings by value in the Fund were: Commonwealth Bank, McMillan Shakespeare, NIB Holdings, News Corporation and ANZ Bank.

Net Returns to 30 th November 2010 ²			
	Pengana Core	Cash Rate	All Ordinaries
1 Month	-0.1%	0.3%	-0.7%
3 Months	5.3%	1.1%	6.6%
6 Months	9.1%	2.2%	7.4%
1 Year	8.0%	4.2%	3.2%
2 years annualised	24.1%	3.8%	17.8%
Annualised return Inception	11.3%	4.2%	-1.0%

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 Managers' 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

Global equity markets were mixed during November as investors faced a barrage of negative news including fresh Eurozone debt concerns, Chinese monetary tightening and increased tensions in the Korean peninsula. The ASX All Ordinaries Accumulation Index finished down -0.7%. The A\$ fell 2.5% over the month to close at US\$0.962. The Healthcare (+6%); Telecoms (+5%) and Energy (+2%) were the strongest performing sectors while Consumer Staples (-5%) Banks (-5%); and Consumer Discr (-4%) were the only negative sectors.

Higher US\$ commodity prices and robust demand for iron ore and coal continue to fuel excellent trading terms for Australian exports. However this was offset by the soft demand experienced in many of the other domestic sectors. Retail sales in particular appear to be facing a number of headwinds including unfavourable weather, growth in online retail, price deflation due to the strong A\$, higher domestic interest rates and significantly higher prices for non-discretionary services (e.g. electricity).

Investment Outlook

The medium term economic outlook for the OECD Group countries (appropriately grouped under the reference of "HICS" – Heavily Indebted Countries) remains subdued. However the robust GDP growth forecasts for the emerging economies (or "BRICs") including Brazil, Russia, India and China and most of South East Asia stand in sharp contrast. The ability of these countries to sustain regional growth without the larger developed economies (the much discussed "decoupling effect") represents a key investment variable for Australia. Concrete evidence of Australia's competitive advantage in providing significant quantities of high quality, low cost **coal** and **iron ore**, to these "growth markets" continues to be supported by a string of healthy trade surplus numbers.

These positive factors are expected to support a strong domestic economy and enhance the virtuous circle of stable financial systems, low unemployment levels and above trend population growth (while not without exaggerating the imbalances of our two speed economy). **Domestic leaders and decision makers face the interesting challenge of how they apply the massive Resources Dividend in order to provide a non-cyclical enduring benefit to Australian citizens. Accordingly the Fund is actively pursuing investment opportunities that will be beneficiaries of this focus.**

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.

One example is represented by the Fund's holding in Credit Corp Ltd, a receivables management company that specialises in the purchase of distressed debt books and the subsequent collection of the underlying individual debts. The competent management team has demonstrated an ability to price these books appropriately. In addition to significant scale, the company's sustainable competitive advantage appears to be their internally developed proprietary systems and processes that optimise collection efficiencies.

Other examples of this can be found in several defensive companies with competent management, dominant market shares, pricing power and robust balance sheets. Lower share prices in a weak equity market provide more attractive entry points for the Fund which is focussing on after tax cash earnings yields.

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