

Pengana Australian Equities Core Fund

July 2011 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.

Since inception in June 2008 the Fund has consistently protected capital and provided investors with a robust total return of **9.6% p.a.** versus the Reserve Bank Cash Rate of **4.5% p.a.** These returns are particularly pleasing given the very difficult investment environment as evidenced by the Australian All Ordinaries Accumulation Index's (the market's) return of **-1.4% p.a.** over the same period.

Fund Features

Application Price at Month End	A\$1.2222	Redemption Price at Month End	A\$1.2161
Style	Fundamental	Current FUM Fund/Strategy	A\$39m / A\$59m
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 the increase in net asset value subject to the Australian Cash Rate & High Water Mark
Inception Date	30 June 2008	Minimum Initial Investment	A\$20,000

Fund Commentary

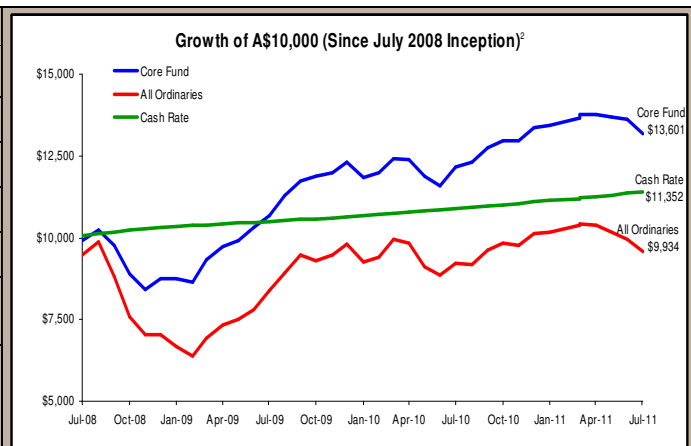
Fund Performance (A\$, net of fees)²

	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%	3.0%	0.7%	1.5%	1.0%	0.0%	-0.8%	-0.5%	17.4%
2011/12	-3.1%												-3.1%

The Fund fell 3.1%² during July, net of all fees and costs. By way of comparison the Australian All Ordinaries was down 3.4% for the month and the prevailing cash rate stood at 0.4% during the same period. As at July 31st, cash represented **15%** of the fund. The top five holdings by value are: **NIB Holdings, DUET, CBA, News Corporation and McMillan Shakespeare**. Large positive contributors to the past month's performance included NIB Holdings, XRF Scientific, Telstra and Mortgage Choice. The larger detractors included Duet, News Corporation, RCG Group, CBA and CSL. New holdings in XRF Scientific (Mining services company) and Woolworths Preference Shares (a 45 day corporate Bond at an 8% annualised yield to maturity) were acquired during July. Significant acquisitions to existing holdings during June included, News Corporation, NIB Holdings, Seven West Media and NAB. The only significant sale was the lightening of the Fund's large holding in Duet into strength.

Net Returns to 31st July 2011²

	Pengana Core	Cash Rate	All Ords	Std Dev	Sharpe Ratio
1 Month	-3.1%	0.4%	-3.4%	N/A	N/A
3 Months	-4.4%	1.2%	-7.5%	N/A	N/A
6 Months	-2.0%	2.3%	-5.4%	N/A	N/A
1 Year	8.3%	4.7%	4.0%	6.2%	0.58
2 Years annualised	11.2%	4.2%	7.0%	9.0%	0.78
Annualised Return Since Inception²	9.6%	4.5%	-1.4%	11.9%	0.42



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.

Pengana Capital Ltd (ABN 30 103 800 568, Australian financial services license number 226566) is the issuer of units in the Pengana Australian Equities Core Fund (ARSN 146 346 929) (the "Fund"). A product disclosure statement for the Fund is available and can be obtained from our distribution team. A person should obtain a copy of the product disclosure statement and should consider the product disclosure statement carefully before deciding whether to acquire, or to continue to hold, or making any other decision in respect of, the units in the Fund. This report was prepared by Pengana Capital Ltd and does not contain any investment recommendation or investment advice. This report has been prepared without taking account of any person's objectives, financial situation or needs. Therefore, before acting on any information contained within this report a person should consider the appropriateness of the information, having regard to their objectives, financial situation and needs. Neither Pengana Capital Ltd nor its related entities, directors or officers guarantees the performance of, or the repayment of capital or income invested in, the Fund.

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Market Commentary

Market Review

The domestic market (Australian All Ordinaries Accumulation Index) fell 3.4% during July suffering its 4th consecutive monthly decline. Global equity markets were also weak, particularly in Australian Dollar terms as the A\$/US\$ exchange rate rallied to finish up 3% - near all time highs. Understandably the better performing sectors were the defensive Telecoms (+3.51%), Industrials (-0.7%), and Utilities (-1.7%). Consumer Discretionary (-7.5%), Real Estate (-6.6%) and Financials (-6.2%) were the largest decliners as consumer confidence fell sharply.

Investment Outlook

Many global investors appear to have capitulated as important economic indicators continue to deteriorate. At a macro level, the level of government indebtedness amongst the larger industrialised economies has reduced their available options for re-stimulating (or even protecting) their fragile economies. High levels of unemployment continue to sap consumer confidence and defer any meaningful recovery in retail sales. In addition, the "currency war" (or race to the bottom currently being won by the US dollar) has generated the nasty side effect of sharply higher commodity prices as investors seek safety in "hard assets". At a micro level, many consumer focused businesses are enduring a tough combination of subdued revenues, higher input costs and tighter lending conditions.

Several Asian economies, (critical drivers of global growth) are being tested as their pegged currencies create a difficult environment of high inflation and negative real interest rates. While we continue to be impressed by the ability of the Chinese authorities to manage these complex stresses, the margin for error continues to shrink. In a nutshell, they are being asked to navigate a very narrow path between maintaining the Yuan at an increasingly unrealistic level (to sustain employment levels in critical export sectors) or allowing the currency to appreciate providing some relief from the inflationary impact of sharply higher soft and hard commodity prices for their citizens. **It is increasingly my view that this latter course of action will eventuate as the likely outcome, increasing the Chinese buying power for Australian exports.**

These factors enhance the position of Australian exports although we question whether current record levels of demand can be maintained. Australia certainly continues to be a major beneficiary of its fortunate position (both geologically and geographically) as a low cost **coal** and **iron ore** supplier. However the "China Dividend" continues to put enormous pressure on the domestic economy through higher interest rates and a robust Australian Dollar resulting in negative consequences for tourism, education and retail sectors.

While we are probably more bearish than most on the global macro outlook, the recent broad based (and in our opinion - indiscriminate) sell-off by nervous investors has created many attractive investment opportunities for the Fund. **The share prices of many high quality companies with solid balance sheets, pricing power and largely economically insensitive business models have been sold off to very compelling levels. Consequently we have and continue to increase the Fund's overall level of equity exposure.**

An interesting exercise is to attempt to find an asset class that can provide some protection against the prevalent macro concerns. While Gold and Swiss Francs have proven to date to be very attractive safe havens, their current levels (and lack of income generation) make them a less than compelling case for new money. The combination of sovereign risk and (paradoxically) low yields on offer in Government bonds across many of the investable western economies also limits their attractiveness. Currency and inflation risks impact heavily on cash equivalent investments in the commodity producing countries (e.g. Canada, Brazil and Australia) particularly given the enormous amount of cash already parked on deposit. It would appear that conservatively priced, well managed multinational companies with defensive revenues and solid balance sheets may offer an investment solution to risk averse investors.

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