

Pengana Australian Equities Core Fund

August 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.

The Fund remained focused on buying resilient businesses with competent management at attractive prices. The sharp sell-off during the first 7 trading days of the month provided the Fund with several compelling investment opportunities. We are pleased to report a positive return of 1.4% during August as well as **materially higher levels of franking credits and high calibre equities**. This is particularly pleasing given the extreme volatility and negative returns experienced by the market during August.

Fund Features

Application Price at Month End	A\$1.2394	Redemption Price at Month End	A\$1.2333
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

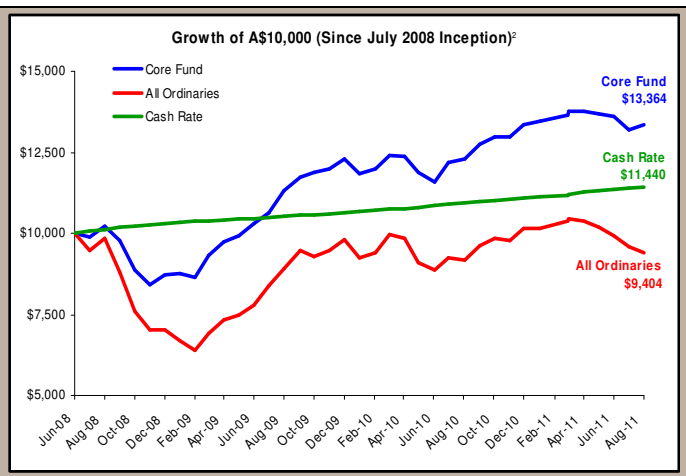
	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	FYTD
2008/9	-1.0%	3.5%	-4.7%	-9.0%	-5.3	3.9%	0.2%	-1.4%	7.9%	4.4%	2.2%	3.7%	3.0%
2009/10	3.5%	6.1%	3.8%	1.2%	1.0%	2.5%	-3.6%	1.1%	3.6%	-0.2%	-4.0%	-2.5%	12.5%
2010/11	5.1%	1.1%	3.6%	1.8%	-0.1%	3.0%	0.7%	1.5%	1.0%	0.0%	-0.8%	-0.5%	17.4%
2011/12	-3.1%	1.4%											-1.7%

The Fund's return was **1.4%**² for August, net of all fees and costs. By way of comparison the Australian All Ordinaries fell -2.0% for the month and the prevailing cash rate stood at 0.4%. As at August 31st, cash (inc notes and prefs) represented **13%** of the fund. The top five holdings by value are: **DUET, NIB Holdings, CBA, McMillan Shakespeare and Seven Group Holdings**.

Large positive contributors to the month's performance included NIB Holdings, DUET, News Corporation, Seven West Media, and Mermaid Marine. The largest detractor was CSL with several minor detractors including McMillan Shakespeare, APK and CSG Group. The Fund had an active month. A new holding was established in Woolworths. Significant net acquisitions to existing holdings during August included DUET, Seven West Media, Seven Group Holdings and Metcash. The Fund lightened its holdings in Telstra, News Corporation and Wide Bay Australia.

Net Returns to 31st August 2011²

	Pengana Core	Cash Rate	All Ords	Std Dev	Sharpe Ratio
1 Month	1.4%	0.4%	-2.0%	N/A	N/A
3 Months	-2.3%	1.2%	-7.6%	N/A	N/A
6 Months	-2.1%	2.4%	-9.3%	N/A	N/A
1 Year	8.6%	4.7%	2.6%	6.2%	0.63
2 Years annualised	8.8%	4.3%	2.7%	8.2%	0.55
3 Years annualised	9.3%	4.2%	-1.6%	11.9%	0.43
Annualised Return Since Inception²	9.9%	4.2%	-1.9%	11.7%	0.45



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 another 2% during an extremely volatile August suffering its 5th consecutive monthly decline. **Investor capitulation culminated in a vicious sell-off domestically on the 9th of August taking the Australian All Ordinaries down almost 18% over 7 trading days. In a bizarre twist, bargain hunters chose midday to step up and aggressively bought the market, turning it into a positive day.** The better performing sectors were the Telecoms (assisted by the Telstra Dividend) (+5.9%), Utilities (+4.6%) and Real Estate (+2.4%). Energy (-6.4%), Materials (-4.9%), and Industrials (-4.2%) were the largest decliners.

Global equity markets were even weaker. The most notable aspect of the month was the extreme daily volatility in world wide equity markets. Given the combination of large trading volumes and massive moves (in both directions) on almost a daily basis, it is hard to imagine that month end reports won't reveal a polarisation amongst winners and losers amongst professional investors.

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. Europe is particularly vulnerable. 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. **The volatility of the last month in particular demonstrated our conviction as we increased our already significant exposure to several companies at very attractive prices. These included Duet, News Corporation, McMillan Shakespeare, Seven Group Holdings and Seven West Media. This activity assisted us in achieving positive returns in two ways. Firstly substantial capital gains were achieved on these companies, and in some cases realised. In addition the Fund has been a material beneficiary of high levels of fully franked dividends, providing additional benefits to investors.**

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