Pengana Australian Equities Core Fund
November 2011 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 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.

For the 12 months ended 30th November 2011, the Fund has preserved capital and provided investors with a positive return of 2.8%[2]. **Over the 3 year period, the Fund has generated a robust return of 16.0% p.a., significantly higher than the Reserve Bank cash rate of 4.1% p.a[2]. over the same period.**

Fund Features

Application Price at Month End	A$1.2354	**Redemption Price at Month End**	A$1.2293
Style	Fundamental	**Current FUM Fund/Strategy**	A$43m / A$63m
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]

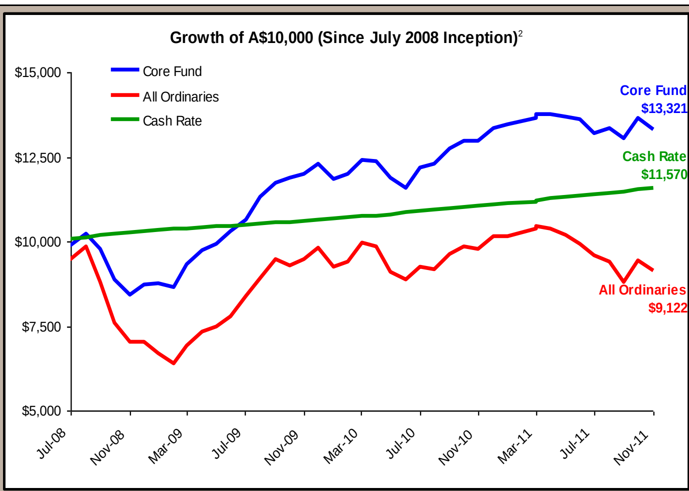
	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	FYTD
2008/9	-1.0%	3.5%	-4.7%	-9.0%	-5.3	3.9%	0.2%	-1.4%	7.9%	4.4%	2.2%	3.7%	**3.0%**
2009/10	3.5%	6.1%	3.8%	1.2%	1.0%	2.5%	-3.6%	1.1%	3.6%	-0.2%	-4.0%	-2.5 %	**12.5%**
2010/11	5.1%	1.1%	3.6%	1.8%	-0.1%	3.0%	0.7%	1.5%	1.0%	0.0%	-0.8%	-0.5%	**17.4%**
2011/12	-3.1%	1.4%	-2.4%	4.7%	-2.4%								**-2.1%**

The Fund generated a negative return of **2.4%**[2] for November, net of all fees and costs. By way of comparison the Australian All Ordinaries fell sharply to close down **3.4%** for the month and the prevailing cash rate returned **0.3%**. As at November, 30th, cash (including notes and preference shares) represented **13%** of the fund. The top five holdings by value are: **DUET**, **NIB Holdings, NAB, McMillan Shakespeare and CBA.**

Large positive contributors to the month's performance included DUET, CSL, Woolworths and NIB Holdings. The largest detractors were McMillan Shakespeare, Seven Group Holdings, Seven West Media, RCG Group and Symex. Significant net acquisitions to existing holdings during November included NAB, McMillan Shakespeare, Woolworths, Emeco Holdings and bonds issued by Australian Unity. Importantly a new holding in Tatts Group was acquired during the month. The Fund's holdings in Orica Preference Shares were redeemed, crystallizing a very satisfactory return over the short holding period. In addition the Fund disposed of its holdings in Salmat and CSV Group.

Net Returns to 30th November 2011[2]

	Pengana Core	Cash Rate	All Ords	Std Dev	Sharpe Ratio
1 Month	-2.4%	0.3%	-3.4%	N/A	N/A
3 Months	-0.3%	1.2%	-3.0%	N/A	N/A
6 Months	-2.6%	2.4%	-10.4%	N/A	N/A
1 Year	2.8%	4.8%	-6.6%	8.0%	-0.24
2 Years annualised	**5.4%**	**4.5%**	**-1.8%**	**8.9%**	**0.10**
3 Years annualised	**16.0%**	**4.1%**	**10.4%**	**9.8%**	**1.28**
Annualised Return Since Inception[2]	**8.8%**	**4.3%**	**-2.6%**	**11.8%**	**0.37**



[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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PENGANA CAPITAL

Market Commentary

Market Review

The domestic market (Australian All Ordinaries Accumulation Index) 3.4 % November decline follows several months of large movements in equity prices (and predominantly negative moves at that). In a similar vein the 5% fall in the AUS exchange rate once again serves to enlarge the impact for offshore investors. The more defensive sectors posted positive returns for the month – REITS (2.6%); Health Care (2.2%) and Telcos (1.9%). Financials (-6.8%); Materials (-6.6%) and Energy (-4.3%) bore the brunt of this month's "risk off" trade.

Global equity markets retreated in November as European sovereign and banking concerns rattled investors giving rise to increased volatility. The volatility will remain elevated until the markets are satisfied that the issues are being adequately addressed. This is not yet the case.

Investment Outlook

Professional investors continue to face an interesting conundrum. From a macro perspective the impact of unsustainable sovereign debt levels in several important economies will limit economic growth for many years. Business confidence remains brittle as banks remain cautious lenders and consumers have rediscovered thrift. Yet, in spite of these negative operating conditions, there are good businesses with competent management and robust balance sheets that are trading profitably in a sustainable fashion. Importantly the share prices of many of these companies do not reflect their superior business models or attractive future cash flows. In our view, the current environment offers significant opportunities to acquire high quality future after tax earnings streams at very attractive prices.

The perception that the European leadership will be unable to resolve the key fundamental issues of unsustainable sovereign debt levels and credit liquidity remains top of mind. This lack of confidence in policy makers has manifested itself in rising European sovereign borrowing costs, sharp sell-offs in listed banking share prices and credit agency downgrades. Credit availability is becoming a real problem as capital providers keep their powder dry until some clarity (and strong leadership) emerges. The impact of a recession in Europe on global economic activity is difficult to assess, and this cannot be helpful to an already shaky global economy

Domestically the economy is feeling the brunt of a combination of several negative factors including poor policy decisions, structural shifts in traditional retail business models, a strong A$ and the pervasive lack of confidence due to the media's obsession with trumpeting the bad news out of Europe. The Reserve Bank's recent interest cuts attempts to shore up domestic demand and the all important residential property prices. It would appear that further cuts may be needed. Many consumer focused businesses are enduring a tough combination of subdued revenues, higher input costs and tighter lending conditions. More recently the revival of militancy in unionised labour force negotiations has added another obstacle for an embattled corporate sector.

However, the recent broad based (and in our opinion – indiscriminate) sell-off by nervous investors has created many attractive investment opportunities for the Fund. We continue to be pleasantly surprised at the range of investment opportunities to acquire high quality companies with solid balance sheets, pricing power and largely economically insensitive business models.

One example of this is our recent acquisition of the Tatts Group providing us with exposure to their portfolio of complementary, high quality, resilient business models with strong cash flows. Post the termination of the Victorian Gaming Machine contract, the company consists of a) an excellent lottery business with a national footprint, b) well placed wagering business with the enviable characteristics of meaningful operating efficiencies due to scale, the lowest cost structure and the ability to monetise an entry into markets representing 80% of the national market, and c) a technology business. The position was acquired on a sustainable after tax earnings yield of 9% with growth.

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