Pengana Australian Equities Core Fund
January 2012 Update, by Rhett Kessler

PENGANA CAPITAL

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.

Over the last 3 years, the Fund has generated a robust return of 16.5% p.a.[2] By way of comparison, the Australian All Ordinaries Accumulation Index ("the share market") returned 12.2% p.a. and the Reserve Bank cash rate was 4.1% p.a. over the same period.

Our disciplined investment approach remains focussed on our objective of preserving capital while generating a fair risk adjusted return to unit holders. It has been our experience that the quantity and quality of these opportunities has a strong inverse correlation to general investor sentiment.

Fund Features

Application Price at Month End (Cum Distribution)	A$1.2511	**Redemption Price at Month End (Cum Distribution)**	A$1.2449
Style	Fundamental	**Current FUM Fund/Strategy**	A$50m / A$71m
Investors	Retail & Wholesale Clients	**Management Fees**	1.025% p.a. of NAV (incl. 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 RBA 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]

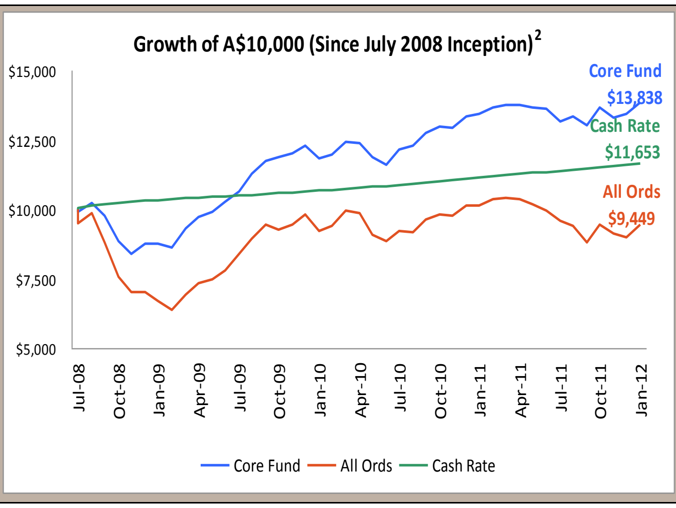
	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	FYTD
2008/9	-1.0%	3.5%	-4.7%	-9.0%	-5.3	3.9%	0.2%	-1.4%	7.9%	4.4%	2.2%	3.7%	**3.0%**
2009/10	3.5%	6.1%	3.8%	1.2%	1.0%	2.5%	-3.6%	1.1%	3.6%	-0.2%	-4.0%	-2.5 %	**12.5%**
2010/11	5.1%	1.1%	3.6%	1.8%	-0.1%	3.0%	0.7%	1.5%	1.0%	0.0%	-0.8%	-0.5%	**17.4%**
2011/12	-3.1%	1.4%	-2.4%	4.7%	-2.4%	1.0%	2.9%						**1.7%**

The Fund generated a positive return of **2.9%**[2] for January, net of all fees and costs. By way of comparison the Australian All Ordinaries rose by **5.2%** and the prevailing cash rate returned **0.4%** over the month. As at January 31st, cash (including notes and preference shares) represented **15%** of the fund. The top five holdings by value are: **DUET**, **NIB Holdings, McMillan Shakespeare, NAB and Seven Group Holdings.**

Large positive contributors to the month's performance included Seven Group Holdings, Resmed, McMillan Shakespeare and Seven West Media. The largest detractors were NIB Holdings and CSL. Significant net acquisitions to existing holdings during January included Australian Unity Bonds, Resmed and Woolworths. A new holding in Mastermyne was acquired providing the Fund with additional mining services exposure. The Fund disposed of its holdings in Australian Power and Mortgage Choice.

Net Returns to 31st January 2012[2]

	Pengana Core	Cash Rate	All Ords	Std Dev	Sharpe Ratio
1 Month	2.9%	0.4%	5.2%	N/A	N/A
3 Months	1.3%	1.0%	0.0%	N/A	N/A
6 Months	5.0%	2.2%	-1.6%	N/A	N/A
1 Year	2.9%	4.6%	-6.9%	7.9%	-0.22
2 Years annualised	**8.1%**	**4.5%**	**1.1%**	**8.4%**	**0.42**
3 Years annualised	**16.5%**	**4.1%**	**12.2%**	**9.7%**	**1.29**
Annualised Return Since Inception[2]	**9.5%**	**4.2%**	**-1.6%**	**11.5%**	**0.44**



[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 Australian Equities Core Fund January 2012 Update, by Rhett Kessler

Market Commentary

Market Review

The domestic market (Australian All Ordinaries Accumulation Index) started 2012 strongly delivering a 5.2% positive return for the month of January. Materials (10.3%), Energy (8.3%) and Industrials (6.3%) led the way as investor risk appetites returned. The more defensive sectors lagged with Information Technology (-2.3%), Health Care (-1.2%) and Telcos (0.1%) bringing up the rear.

Global equity markets continued their recovery during January particularly in the Asia ex Japan Region – up 11%. From a fundamental perspective it is difficult to be definitive about the reasons for the rally. A simple yet intuitive factor could be the application of common sense: Investors are being forced to choose between over-priced (low yielding) bonds and the attractive yields on offer by heavily discounted equities.

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.

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 demonstrate their attempts to shore up domestic demand and residential property prices. We are of the view that further cuts will 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.

A significant issue that continues to worry us is the unsustainably high cost of living in Australia. The proliferation of domestic retail price points that are materially out of step with offshore comparisons has become a mainstream issue. In the past, businesses have been able to avoid or slow the necessary adjustments. However, the pressure from online retailers through price discovery and transaction accessibility appears to be forcing the pace of change. While we have been wary of price deflation headwinds throughout the discretionary retail value chain for some time, we continue to be surprised by the rapidity of its impact on turnover and profitability. We continue to limit our exposure to this area.

Contact Details

Pengana Capital Limited ▪ Level 12, 167 Macquarie Street, Sydney, NSW 2000, Australia ▪ T +61 2 8524 9900 ▪ F +61 2 8524 9901
ABN 30 103 800 568, AFSL 226566

For further information, please visit our website at **www.pengana.com** or contact:

Private Clients:	Gale Ruttanaphon	+61 2 8524 9918	gale.ruttanaphon@pengana.com
	Tom Curtis	+61 2 8524 9986	tom.curtis@pengana.com
Advisors:	Damian Crowley	+61 2 8524 9970	damian.crowley@pengana.com
	Justin Brooks	+61 3 8663 7906	justin.brooks@pengana.com