

Stanley Fund Managers

Monthly Report 30/11/2004

Fund Information			
Strategy	Market neutral global resource equity	Domicile	Australia, Caymans
Style	Fundamental pairs trading, developed markets, max 3x leverage	Denomination	A\$ (on and offshore), US\$(offshore)
Objectives	Optimal risk / return profile, preservation of capital, non-correlation to stock market indexes	Management fee	1.5% per annum
Inception date	Nov-04	Performance fee	20% with high water mark
AUM	A\$7m	Redemptions	Monthly
		Lock Up	None
		Minimum subscription	\$100,000

Fund Performance													
Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year
2004											-0.03%		-0.03%

Performance and Market Commentary
<p>The Fund began trading during the second week of November. As the trading process is opportunistic rather than deterministic, the portfolio will be built slowly and then 'rolled' when the book attains full capacity. At month end the Fund had 5 pairs in place relative to an expected 15-25 pairs under normal trading conditions. As such, November represented a build-up phase rather than an active 'typical' trading period.</p> <p>The return for the month was -0.03%. The first trade in the fund was within the US paper sector and showed a positive return of 2.5% of gross exposure at month end. All positions held proved to be relatively non-volatile and showed the value of the trading style from this perspective. The worst performing trade (a 2.5% negative return on gross exposure) came within the US coal sector where an average stock price appreciation of 26% for the month was apparent. This relatively low loss across the pair demonstrates the lack of exposure to the underlying commodity being traded and also the relatively low risk across the pair relative to the stocks individual price movements. We typically target a 10% gain on individual trades, so all positions currently on the book can be viewed as being in their infancy stages of profitability.</p> <p>Strategically, the commodity sector is a current hotspot of corporate activity with M&A deals at their highest level in over a decade. As such, we are cautious towards investment as stock specific issues (i.e. corporate activity) can overshadow technical and fundamental valuations in the short term. We are cognisant of these issues and would generally avoid stocks involved in M&A activity unless we have a specific well defined view that can be profited from.</p> <p>Looking forward, we anticipate December to be another month of position building towards full investment. Relatively slow markets in light of the lower volumes and activity typically associated with the Christmas season are to be expected.</p>

Month End Portfolio Analysis	
Number of Pairs	5
Exposure	
Long Portfolio	34.1%
Short Portfolio	34.1%
Net	0.0%
Leverage	68.2%
Sector Activity	
Platinum	21.1%
Gold	15.2%
Coal	24.0%
Diversified	20.5%
Aluminium	0.0%
Paper	19.2%
Steel	0.0%

Service Providers
Offshore Administrator: Citco Fund Services
Onshore Administrator: BNP Paribas Securities Services
Auditor: Ernst & Young
Prime Broker: Credit Suisse First Boston

Contact Details	
Principals:	
Elan Miller +61 (0) 2 8248 3918 elanmiller@stanleyfunds.com	Chris Thompson +27 11 467 6314 christhompson@stanleyfunds.com
Investment Enquiries:	
Damien Hatfield: +61 (0) 2 9241 1749 Damien@pengana.com.au	Nick Griffiths: +61 (0) 2 9241 1703 Nick@pengana.com.au

Notes
Pengana Capital is a boutique funds manager based in Sydney Australia. In July 2004 Pengana listed Pengana Managers Limited (PML) on the ASX to raise seed capital for new or recently formed hedge fund managers. Pengana provides SFM with seed capital, fund structuring, operational, risk management and marketing support. SFM commenced trading in November 2004.

Disclaimer
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Stanley Fund Managers Ltd
Level 38 Australia Square 264 George Street
Sydney NSW 2000 Australia
Phone: +61-2-8248-3918

Pengana Capital Limited ACN 103 765 082
Level 38 Australia Square 264 George Street
Sydney NSW 2000 Australia
Phone: +61-2-9241-1740

