



Pengana Australian Equities Long Short Fund

June 2008 Update (onshore)

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Fund Performance

The fund commenced the month of June 43% net long, ending the month 56% net long. After sundry income and all costs and fees, the net return for June was a NAV decrease of 8.7% to \$1.0725. This was our worst monthly performance since inception and truly disappointing to us as managers. Half of the monthly setback was a direct mark-to-market outcome of our listed Fixed Interest portfolio.

The ASX 300 Accumulation Index declined 7.6% over June. All major sub-indices declined except Energy (+1.6%). Worst performing sectors were Consumer Discretionary (-14.8%), Utilities (-13.3%) and Financials (-12.3%), with elevated concerns over earnings, distribution downgrades and funding.

Performance Contributors

Equity longs	-5.65%
Equity shorts	+1.80%
Derivatives	0.00%
Fixed Interest	-4.50%

Best performers in the longs were BHP Billiton, Lihir Gold and Worley Parsons. Significant detractors were once again Babcock & Brown Power and Transfield Services. Short positions in market-related financial services and consumer stocks contributed positively. Recent share price falls have again demonstrated the market's willingness to place short term earnings momentum ahead of an underlying value proposition.

Securities in our Fixed Interest portfolio (all floating rate notes) revisited their March lows towards the end of June as credit spreads widened again. We retain the view that mark-to-market price deviation will reverse as these yield investments move towards maturity and/or as credit spreads settle.

Our fundamental investment process remains intact and while we seek to minimise month-to-month volatility and preserve capital, the fixed interest component has played a significant roll in disturbing this outcome over the past two quarters.

While we have significantly reduced exposure to these counters, primarily to reduce month-to-month volatility, they continue to justify a role to enhance cash returns (and franking credits in the onshore fund), without carrying equity risk.

Market Commentary and Outlook

As global growth expectations continue to be adjusted lower, evidence continues to mount for a slowing Australian domestic economy outside the resource and infrastructure driven sectors. Private sector credit growth is slowing sharply, while inflation continues to trend higher. The services sector, which accounts for over 40% of GDP, appears set for a sharp slowdown in activity from previously strong levels.

However, trends in bulk commodity markets (iron ore and coking coal in particular) suggest significant elements of the Australian economy will continue to benefit from high prices and rising export volumes.

Commencing a new financial year with a US\$140 oil price and a dysfunctional credit market is setting the stage for continued divergent stock and sector performance, at least until earnings visibility improves in the December half of 2008. The importance of aligning with sustainable business models has never been higher.

On the long side, we are retaining exposure to companies that continue to have a solid growth outlook and exhibit pricing power in an inflationary environment.

On the short side we are targeting stocks that 1) carry risk of greater than expected negative earnings revisions and 2) offer protection to long positions via exposure to thematically unattractive sectors and 3) offer alpha generating opportunities in a bear equity market, recognising that many non-miners are heavily over-sold.

The Fund's net long exposure at the time of writing (04 July 08) is around 53%, with a net overweighting in resource and infrastructure servicing companies. There is a corresponding net underweight exposure to financials, property and consumer-related stocks.

Portfolio Structure

As at the end of June 2008, the portfolio was structured as follows:

Long positions	26
Short positions	7
Equity Long exposure	65.1%
Equity Short exposure	-8.9%
Net Long Exposure	56.2%

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Top Five Long Positions

Top 5 concentration: 19.5%
BHP Billiton
Mount Gibson Iron
Telstra
Transfield Services
Westpac Banking Corp

Risk Characteristics

Annual Volatility	9.0%
Sharpe Ratio	0.9
Downside Deviation	4.18%
Sortino Ratio	1.94
Risk Free Rate Assumed	7.25%

Fund Details (as at 30 June 2008)

Fund Size: AUD 11.9m (AUD 18m incl. offshore)

Redemption unit price at month end: AUD1.0709. Application unit price at month end: AUD1.0742

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2008	-4.19%	-3.23%	-3.76%	7.01%	-0.41%	-8.65%							-13.13%
2007	1.31%	0.95%	1.20%	1.91%	3.19%	0.65%	0.36%	0.79%	2.68%	1.66%	-0.84%	-0.16%	14.52%
2006	2.10%	1.22%	4.26%	0.89%	-1.14%	2.56%	0.48%	0.05%	0.66%	3.56%	0.92%	2.12%	19.03%
2005	2.56%	-1.26%	0.17%	-0.55%	-0.82%	3.30%	0.72%	4.23%	2.65%	-0.85%	3.04%	1.81%	15.84%
2004					0.84%	1.08%	5.26%	-0.22%	2.74%	5.94%	2.90%	0.71%	20.76%

At 30 June 2008	PAELSF Net Return ¹	PAELSF Gross Return ²	Cash	ASX 300 Accum Index	PAELSF Average Net Exposure ³
1 Month	-8.7%	-8.5%	0.6%	-7.6%	49.0%
3 Months	-2.6%	-2.3%	1.8%	-1.7%	49.3%
6 Months	-13.1%	-12.5%	3.5%	-16.1%	55.0%
12 Months	-9.2%	-7.0%	6.8%	-13.7%	46.5%
24 Months	7.4%	16.0%	13.4%	11.6%	47.9%
Since Inception (May 2004)	65.7%	103.4%	27.1%	82.8%	48.7%
Annualised Volatility	9.0%	10.1%	0.2%	11.7%	

¹ Net Performance, after all fees and charges.

² Gross Performance excludes both management and performance fees.

³ Exposure is delta adjusted for derivatives and preference shares.

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