Pengana Australian Equities Long Short Fund
July 2008 Update (onshore)

Fund Performance

The fund commenced the month of July 56% net long, ending the month 53% net long. After sundry income and all costs and fees, the net return for July was a NAV increase of 0.33% to $1.0228. At 30 June 2008 the fund went ex a $0.0531 distribution. The 30 June ex – distribution NAV was $1.0194.

The ASX 300 Accumulation Index declined 4.7% over July. Telcos, Utilities and Industrials sub-indices increased. Worst performing sectors were Energy (-13.7%) and Materials (-10.3%), effectively a reversal of the previous month. The pace of the confession season picked up on the recurring themes of rising input costs and slowing demand.

Performance Contributors

Equity longs	+0.12%
Equity shorts	-0.88%
Derivatives	0.00%
Fixed Interest	+1.03%

Best performers in the long portfolio were Boom Logistics, Peet, Toll Holdings and Westpac. All energy and materials stocks were significant detractors. Short positions in market-related financial services and consumer stocks were a minor headwind as many industrials rallied.

Market Commentary and Outlook

Global growth expectations continue to be adjusted lower. In the short term there has also been an adverse sentiment shift towards China following a number of unsettling data points. China remains the key sentiment driver for materials demand.

Evidence continues to mount for a sharply slowing Australian domestic economy. The services sector's contraction accelerated sharply in the three months to July. This, combined with a sharp slowdown in credit growth has led to markets' pricing in an official domestic rate cut as early as September 2008, despite the persistence of inflationary pressures.

Credit-induced slowdowns are often much deeper and more extended than industrial-based slowdowns. In our view the de-leveraging process currently underway is unlikely to be reversed by a gradual easing of monetary policy.

The reporting season has confirmed that FY2009 expectations are generally on their way down. However, where worst case outcomes appear to have already been priced into sustainable cash-flow-rich business models, selected industrials offering an attractive risk reward proposition are being rewarded with higher share prices following the release of results.

H1 FY2009 is likely to be the toughest period for year-on year comparisons but as always it's the duration of the downturn and structural changes in our view that are most important for cash flows and share prices. Lower oil prices and fiscal stimulus have the potential to set the stage for a recovery in the rate of global growth in FY2009/2010, despite the likelihood of Australian consumer and service sectors remaining under pressure.

Whilst we have sharply reduced gross and net exposure into the reporting season, we are retaining a medium term long bias towards selected industrials and stocks exposed to global growth. On the short side we are primarily targeting stocks that offer protection to existing long positions via stocks that reflect our aforementioned thinking.

The Fund's net long exposure at the time of writing is around 47%, with a net overweighting in resource and infrastructure servicing companies. There is a corresponding neutral to underweight exposure to financials, property and consumer-related stocks.

Portfolio Structure

As at the end of July 2008:

Long positions	28
Short positions	7
Equity Long exposure	59.3%
Equity Short exposure	-6.6%
Net Long Exposure	52.7%

Top Five Long Positions

Top 5 concentration: 17.1%
BHP Billiton
Leighton Holdings
Telstra
Transfield Services
Worley Parsons

Risk Characteristics

Annual Volatility	8.9%
Sharpe Ratio	0.6
Downside Deviation	4.13%
Sortino Ratio	1.32
Risk Free Rate Assumed	7.25%

Fund Details

Fund Size: $11.8m (A$17.5m incl. offshore)

Redemption unit price at month end: $1.0212
Application unit price at month end: $1.0243

	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%	0.33%						**-12.84%**
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 31 July 2008	PAELSF Net Return [1]	PAELSF Gross Return [2]	Cash	ASX 300 Accum Index	PAELSF Average Net Exposure [3]
1 Month	0.3%	0.4%	0.6%	-4.7%	55.0%
3 Months	-8.7%	-8.4%	1.8%	-10.4%	51.0%
6 Months	-9.0%	-8.4%	3.5%	-10.2%	59.4%
12 Months	-9.2%	-7.1%	6.9%	-16.0%	47.8%
24 Months	7.3%	15.7%	13.5%	8.2%	48.5%
Since Inception	66.2%	104.2%	27.9%	74.2%	48.8%
Annualised Volatility	8.9%	10.0%	0.2%	11.9%	

[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.

Contact Details

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

Institutional Clients:

Denis Carroll
+61 (0) 2 8524 9974, denis.carroll@pengana.com

Private Clients:

Juliet Dunworth
+61 (0) 2 8524 9984, juliet.dunworth@pengana.com