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

Fund Performance

The fund commenced the month of August 53% net long, moving up to 63% intra-month and ending the month 57% net long. After sundry income and all costs and fees, the net return for August 2008 was a NAV increase of 5.1% to $1.0752.

The ASX 300 Accumulation Index increased 4.0% over August. Best performing sub-indices were healthcare, consumer discretionary (retailers delivering both strong results and a better than expected short term outlook) and energy. Worst performing sectors were telcos, utilities and materials. Housing-related and consumer discretionary stocks outperformed dramatically, largely resulting from rotation out of the resources sector and in anticipation of an interest rate easing cycle and a fall in the US$ oil price.

Performance Contributors

Equity longs:	+4.85%	Derivatives:	0.00%
Equity shorts:	-0.07%	Fixed Interest:	+0.6%

Best performers in the long portfolio were Boom Logistics, Hastie Group, Transfield Services and Westpac. Gold and materials stocks were detractors. Short positions in diversified financials and materials contributed with consumer related stocks proving to be a minor headwind.

Market Commentary and Outlook

The reporting season confirmed that FY2009 expectations are generally on their way down. Unexpectedly, retailers delivered genuine upside surprise. More generally, where worst case profit outcomes and outlooks were priced in and proved to be unfounded, selected industrials offering attractive risk-reward value propositions were given a second chance and rewarded with higher share prices.

The reporting season coincided with a continuing adverse sentiment shift towards China following a number of unsettling data points and anecdotal evidence of a slowdown in demand. China remains the key sentiment driver for materials demand. This, coupled with stalling OECD economies, with at least four heading for recession, has lead to lower commodity prices and a weaker A$ since mid- July.

Furthermore, exacerbating weakness in the A$, the RBA cut the official interest rate for the first time in seven years, in an effort to head off an Australian recession. However, the economists we follow believe there is nothing to suggest that an aggressive rate-cutting phase is now underway.

Building approval data suggests that a recovery in Australian housing starts in the 2009 financial year is unlikely.

H1 FY2009 is expected to be a tough period for year-on-year profit comparisons but in our view it's the duration of the downturn and structural changes that are most important for cash flows and share prices. Lower oil prices, lower interest rates and fiscal stimuli have the potential to set the stage for a recovery in global growth in FY2009 / 2010. However, the resumption of significant earnings growth after a period of deleveraging, appears to be someway off.

Your managers are retaining a medium term long bias towards selected industrials and stocks exposed to global growth. Given that we are running a relatively small gross exposure at this time, our stock selection focus is mainly on the long side.

The Fund's net long exposure at the time of writing is around 52%, with a net overweighting in industrials and infrastructure servicing companies. We are neutral / underweight financials, property and consumer-related stocks.

Portfolio Structure

As at the end of August 2008:

Long positions	26
Short positions	6
Equity Long exposure	62.4%
Equity Short exposure	-5.8%
Net Long Exposure	56.6%

Top Five Long Positions

Top 5 concentration: 14.9%
BHP Billiton
Spark Infrastructure
Telstra
Toll Holdings
Transfield Services

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Risk Characteristics

Annual Volatility:	9.0%
Sharpe Ratio:	0.72
Downside Deviation:	6.04%
Sortino Ratio:	1.08
Risk Free Rate Assumed:	7.25%

Fund Details

Fund Size: A$12.4m (A$18.4m incl. offshore)

Redemption unit price at month end: $1.0768
Application unit price at month end: $1.0736

Fund Performance History

	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%	5.12%					**-8.38%**
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 Aug 2008	PAELSF Net Return [1]	PAELSF Gross Return [2]	Cash	ASX 300 Accumulation Index	PAELSF Average Net Exposure [3]
1 Month	5.1%	5.2%	0.6%	4.0%	62.0%
3 Months	-3.7%	-3.3%	1.8%	-8.3%	55.3%
6 Months	-1.2%	-0.5%	3.6%	-5.9%	65.1%
1 Year	-5.3%	-3.3%	7.0%	-14.5%	49.6%
2 Years	12.7%	21.5%	13.6%	8.9%	48.9%
Since Inception	74.7%	114.9%	28.6%	81.2%	49.0%
Annualised Volatility	9.1%	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

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