

Pengana Global Resources Fund

October 2008 Update



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Fund Description

The Pengana Global Resources Fund provides investors with equity exposure to companies within the global mining, energy, steel, commodities and associated services sectors. The Fund is managed out of Melbourne, Australia and uses multiple strategies to profit from inefficiencies in the pricing of companies in its investment universe. Among the strategies utilised by the Fund is the ability to be both long and short securities which allows market volatility to be better managed.

Fund Features

Style	Fundamental, Long bias, Long Short	Management Fees ¹ (monthly)	1.5%p.a
Fund Aim	To achieve a total return in excess of 15% p.a.	Performance Fees ¹ (quarterly)	20% of NAV above a prior high water mark
Investors	Wholesale Clients Only	AUM at Month End	A\$6.58m
Minimum Initial Investment Amount	A\$100,000	Application Price at Month End	A\$1.1547
Inception Date	March 2007	Redemption Price at Month End	A\$1.1455

Fund Commentary

Fund Performance (A\$, net of fees) ²

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2008	-7.53%	8.67%	-2.68%	5.29%	6.20%	0.30%	-4.27%	-1.99%	-20.28%	-12.45%			-28.19%
2007			1.59%	4.91%	9.03%	11.51%	1.07%	-3.89%	10.84%	10.06%	-3.02%	0.16%	49.13%

- **Commodity prices continued to fall in October 2008**
- **The Fund is well diversified with a bias towards companies with large market capitalisations**
- **Whilst demand for commodities has deteriorated the supply response has been rapid**
- **The Fund outperformed the S&P/ASX Metals and Mining Accumulation Index by 6.18% in October**

Commodity prices continued to fall during October with large falls in copper (-37.76%) and oil (-32.37%) weighing heavily on the share prices of resources related equities globally. A confluence of factors including de-leveraging by hedge funds, de-stocking through the supply chain, downwards revisions to global growth forecasts and lower end user demand have all been contributors to the dramatic fall in commodity prices over the past few months. The falls in commodity prices, both actual and forecast, have been reflected in continued weakness in the share prices of resource equities globally with major metals and mining indices falling between 18% and 37% during the month of October.

The Fund was relatively conservatively positioned as at the end of October with a net long position of 66.4% and gross exposure of 76.1%. As was the case in September we continue to bias our long positions towards companies with dynamic management, that are well diversified, have industry leading operations, large capitalisations and good market liquidity. Whilst the rapid change in economic circumstances has seen the outlook for many companies deteriorate in the short term we believe the environment will benefit those companies with the aforementioned attributes to become stronger, more dominant players in their respective industries in the future. Should the current environment of low commodity prices, difficult credit markets and sluggish economic growth remain for an extended period of time we are most likely to see the stronger companies flourish whilst companies with high gearing and mediocre operating assets will fall victims to such circumstances. Over the medium term such an environment would likely result in industry consolidation and lessen new supply growth in the future which would bode well for the remaining participants in the industry.

A rapid fall in demand has adversely impacted the demand/supply balance for most commodities and hence led to substantial declines in the prices of commodities as a new equilibrium in these markets is established. Whilst the fall in commodity prices and the share prices of commodity producers has been spectacular a less conspicuous curtailment of supply has been underway for some time. For instance, the nickel industry has announced cuts that now amount to around 12.8% of global supply. Similarly, global iron ore supply cuts now total around 8% of total production with major supply cuts being announced by Vale and Rio Tinto.

¹ Including GST less any reduced tax input credits. Please refer to the Product Disclosure Statement for a more detailed explanation.

² Net performance figures are derived from Manager's records and are shown after both management fees and performance fees, and assume reinvestment of income. Past performance is not a reliable indicator of future performance.

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Whilst it is disappointing that the Fund returned -12.45% in October it is important to put this into context. In Australia, the S&P/ASX 300 All Resources Index fell by 18.77%. Offshore markets fared even worse with the S&P Metals & Mining Index in the United States falling by 36.6%. Volatility in the resources market remains very high with the S&P/ASX Metals and Mining Index moving greater than +/- 3% on 17 of October's 23 trading days.

Market Commentary

Markets continued to reflect worsening economic conditions globally during October. In the United States the advance estimate of Gross Domestic Product (GDP) fell 0.3% in the September quarter compared to the June 2008 quarter highlighting that the United States economy is now contracting. Similarly, unemployment in the United States has now risen to 6.5%, the highest level since March 1994. Elsewhere, European economic growth estimates continue to be revised downwards and even the emerging economic powerhouse, China, showed signs of slowdown when in October it reported a slowdown in GDP growth to 9% in the third quarter of 2008 – its slowest pace of growth in more than five years. Importantly, inflationary expectations have generally lessened which has provided central banks around the globe more scope to lower official rates.

In response to a deteriorating growth outlook there was a marked shift by central banks globally in moving towards easy monetary policy in a co-ordinated move to lower official interest rates. In the United States the Fed Funds rate fell 1.0% to just 1.0% during October following two 50 basis point reductions during the month. The English central bank, the Bank of England, eased interest rates by 0.50% on 8th October and then further cut official rates by 1.5% on 6th November with official interest rates in England now at 3%, the lowest level since 1955. In Australia, the Reserve Bank of Australia reduced rates by 1.0% on 8th October and then followed with another cut of 0.75% in early November bringing the cash rate target down to 5.25%. Similar actions have been implemented by many of the world's central banks over the past 6 weeks as the severity of the slowdown in the global economy has become apparent.

In addition to co-ordinated monetary easing a financial rescue plan totalling US\$700 billion was finally approved in the United States in October after earlier being rejected by the House of Representatives. Amongst a range of measures approved in the package was an increase in the protection for US bank customers by raising the US government deposit guarantee from US\$100,000 to US\$250,000. On a smaller scale, the Australian Federal Government announced a \$10 billion fiscal stimulus package in October. In early November the Chinese government announced a huge US\$586 billion fiscal stimulus package aimed at arresting the decline in the level of economic growth and improving key infrastructure. Overall, we would expect further economic stimulus in the form of government spending globally as the full extent of the slowdown in economic activity is realised and the private sector goes through a period of de-leveraging and rationalisation.

In October the Australian Securities and Investment Commission (ASIC) extended its ban on short-selling until 19th November. ASIC has since confirmed that the ban on short selling will be lifted at this time, with the exception of financial stocks. Furthermore, there will be a requirement for all short selling to be reported to the Australian Securities Exchange.

Portfolio Action

As at the end of October the S&P/ASX 300 Resources Accumulation Index was down 46.1% from the high achieved in May this year. The pullback of share prices in the resources sector has been dramatic and indiscriminate presenting investors with a time frame longer than a few months a rare opportunity to gain exposure to world class companies at cheap prices. Whilst we remain confident that outstanding value exists in the sector from a longer term perspective it is difficult to ascertain what will be the catalyst for companies to achieve higher prices in the near term. As a consequence, our long positions remain biased towards companies capable of withstanding a protracted downturn in commodity prices and economic activity.

Given the difficult and volatile conditions at present we continue to favour companies that have industry leading operations capable of producing profits at cyclical low points and management that will adapt quickly to a quickly changing environment. The portfolio as at the end of October was heavily weighted towards companies with large capitalisations with 78% of our long position being invested in companies with a market capitalisation of greater than \$15 billion. It is also worth noting that over 95% of our long exposure is in companies with a market capitalisation greater than \$1 billion.

In Australia, the S&P/ASX Metals and Mining Accumulation Index ended October down 18.59% after falling 23.3% in September. Lower base metal prices, downgrades to global growth, continued credit market jitters, downgrades to forecast commodity prices and profits in the sector along with investor redemptions all conspired to push prices of stocks lower during October. Falls in metals and mining companies in major offshore markets were worse than those experienced in Australia. In the United States, the S&P Metals and Mining Index fell 36.6% in October. In London the FTSE 350 Mining Index ended the month down 22% whilst the S&P/TSX Global Mining Index fell by 23%.

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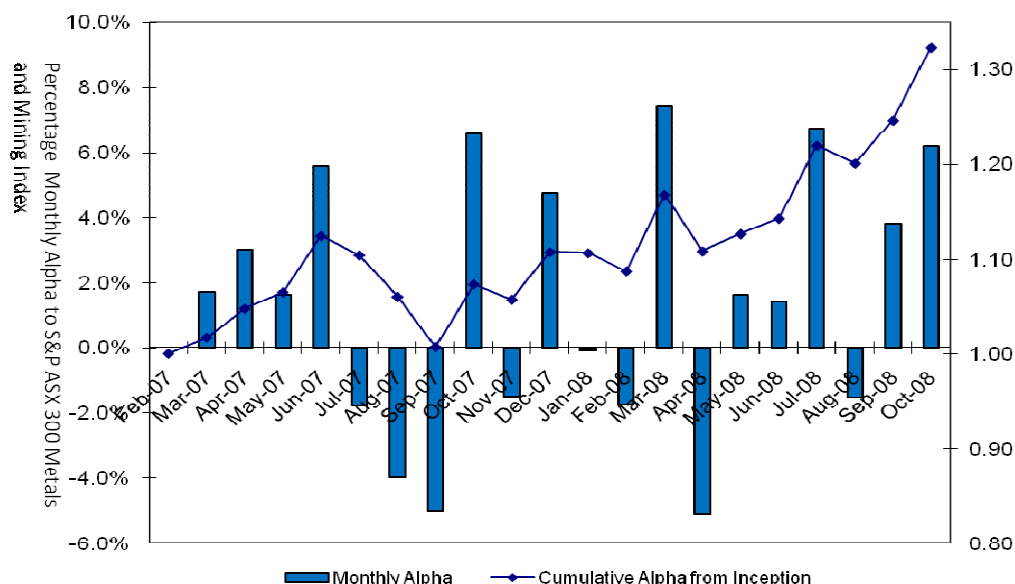
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Domestically, the S&P/ASX 300 Energy Accumulation Index dropped 19.26%. The record high oil price experienced in July this year has quickly evaporated with the oil price ending October 53.7% off its high. By way of comparison the S&P/ASX 300 Energy Accumulation Index has fallen 34.50% from its high as at the end of October. Demand destruction as a consequence of record oil prices and the subsequent actions by a number of countries to reduce/eliminate subsidies for oil consumers resulted in supply exceeding demand. Consequently, OPEC at its October meeting decreased its production quota for members from 28.808 million barrels of oil per day by 1.5 million barrels of oil per day effective 1st November 2008. It remains to be seen whether this move will be enough to bring the oil market into balance in the short term.

Key Contributors

Key contributors to the portfolio's performance during October included PanAust (-60.36%), Equinox Minerals (-57.26%), Freeport McMoRan Copper & Gold (-48.88%), and Xstrata (-38.52%).

Pengana Global Resources Fund – Monthly and Cumulative (A\$) Alpha versus S&P ASX 300 Metals and Mining Index



Fund Performance

Net Returns to 31 October 2008 ³	Pengana Global Resources Fund	S&P ASX 300 Metals and Mining	FTSE 350 Mining	S&P 500 Metals and Mining
1 Month	-12.45%	-18.63%	-22.00%	-36.62%
3 Months	-31.59%	-38.50%	-49.83%	-59.82%
6 Months	-30.25%	-43.42%	-54.57%	-63.37%
12 Months	-30.25%	-46.11%	-50.14%	-64.45%
Since inception⁴	+7.09%	-14.51%	-24.27%	-53.86%

³ Performance figures are net of all fees and assume reinvestment of income.

⁴ Inception date: March 2007, launch date: September 2007. March 2007 – September 2007: Performance of internal fund seeded by Pengana Capital. Past performance is not a reliable indicator of future performance.

Pengana Capital Ltd (ABN 30 103 800 568, Australian financial services licence number 226566) is the issuer of units in the Pengana Global Resources Fund (the "Fund"). Only wholesale clients may invest in the Fund. An Information Memorandum for the Fund is available and can be obtained from our distribution team. A person should obtain a copy of the Information Memorandum and should consider the Information Memorandum carefully before deciding whether to acquire, or to continue to hold, or making any other decision in respect of, the units in the Fund. This report was prepared by Pengana Capital Ltd and does not contain any investment recommendation or investment advice. This report has been prepared without taking account of any person's objectives, financial situation or needs. Therefore, before acting on any information contained within this report a person should consider the appropriateness of the information, having regard to their objectives, financial situation and needs. Neither Pengana Capital Ltd nor its related entities, directors or officers guarantees the performance of, or the repayment of capital or income invested in, the Fund. Past performance is not a reliable indicator of future performance.

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Commodity Price Changes for October 2008:

Commodity	US\$ Price Change	A\$ Price Change	€ Price Change
Oil	-32.37%	-16.67%	-22.75%
Gold	-18.46%	-2.76%	-8.84%
Copper	-37.76%	-22.06%	-28.14%
Aluminium	-17.72%	-2.02%	-8.10%
Zinc	-33.88%	-18.18%	-24.26%
Nickel	-28.25%	-12.55%	-18.63%
Lead	-18.43%	-2.73%	-8.81%
Tin	-19.30%	-3.60%	-9.68%

Portfolio Structure

Portfolio Structure (as at end of 31 October 2008)	
Number of Stocks	25
Gross Exposure	76.1%
Net Long Exposure	66.4%
Breakdown by Strategy	Pairs: 12.5% Directional Long/Short: 87.5%

Top 5 Positions (in alphabetical order)
Anglo American
BHP Billiton
Rio Tinto
Vale
Xstrata

Contact Details

Pengana Capital Limited • Level 29, 20 Bond 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:

Institutional Clients: Denis Carroll, +61 2 8524 9974, denis.carroll@pengana.com
Private Clients: Juliet Dunworth, +61 2 8524 9984, juliet.dunworth@pengana.com
Advisors & Retail Clients: Justin Brooks, +61 3 8663 7906, justin.brooks@pengana.com