Pengana Australian Equities Long Short Fund
January 2009 Update

Fund Description

The Pengana Australian Equities Long Short Fund is a long / short Australian equities strategy, with a long bias and a bottom-up fundamental approach to stock selection. The Fund targets 20 - 30 longs selected from the largest 300 stocks on the ASX and 10-15 shorts selected from the top 200. The manager has a research-based investment process to evaluate investments capable of generating target returns over the medium term, with a strong focus on cash flow generation and growth at a reasonable price. Macro and technical overlays are used to assist in portfolio construction, exposure sizing and market timing. The average net long position since inception has been 45 to 50%. The Fund aims to provide investors with an absolute return of 12 to 15% per annum over the medium term with relatively low volatility (equity type returns with lower volatility).The manager also adopts procedures to manage risk and preserve the capital of investors. The Fund is managed out of Sydney.

Fund Features

Style	Fundamental, GARP	**Management Fees [1] (monthly)**	1.25% per annum
Benchmark	ASX 300 Accum Index	**Performance Fees [1] (semi-annually)**	20% per annum with a high water mark
Investors	Wholesale Clients only	**AUM at Month End**	A$8.26m
Minimum Initial Investment Amount	A$100,000	**Application Price at Month End**	Application: A$0.8072
Inception Date	May 2004	**Redemption Price at Month End**	Redemption: A$0.8048

Fund Commentary

Fund Performance (A$, net of fees)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2009	2.3%												**2.3%**
2008	-4.2%	-3.2%	-3.8%	7.0%	-0.4%	-8.7%	0.3%	5.1%	-4.8%	-13.5%	-10.1%	-1.0%	**-32.8%**
2007	1.3%	0.9%	1.2%	1.9%	3.2%	0.7%	0.4%	0.8%	2.7%	1.7%	-0.8%	-0.2%	**14.5%**
2006	2.1%	1.2%	4.3%	0.9%	-1.1%	2.6%	0.5%	0.1%	0.7%	3.6%	0.9%	2.1%	**19.0%**
2005	2.6%	-1.3%	0.2%	-0.6%	-0.8%	3.3%	0.7%	4.2%	2.6%	-0.9%	3.0%	1.8%	**15.8%**
2004					0.8%	1.1%	5.3%	-0.2%	2.7%	5.9%	2.9%	0.7%	**20.8%**

The fund commenced the month of January 48% net long, ending the month 56% net long. After sundry income and all costs and fees, the net return for January 2009 was an increase of 2.25%. The month end mid unit price was $0.8060 per unit.

The ASX 300 Accumulation Index declined -4.84% over the month of January. The month was characterised by ongoing negative macro data, continuing company profit warnings and equity capital raisings. However, the month finished on a stronger note, mainly in global cyclical names, on the hope of a recovery in the Chinese economy. Best performing sectors were Health Care, Telcos, Consumer Staples and Materials.

Key Contributors / Detractors

Best performers in the long portfolio were DUET (up 21%), BHP Billiton (+6%), Lihir Gold (+5%) and Woolworths (+5%). Mitchell Communications (-18%) Origin Energy (-13%) and QBE Insurance Group (-10%) were the main detractors. Short positions contributed positively, mainly from positions in Brambles, Qantas and big ticket discretionary retailers.

The Fund's residual exposure to two hybrid securities representing 13% of the fund at month end, contributed to performance in January. We had noted stabilisation and recovery in these names from late December. Notwithstanding risks (illiquidity and suspension of interest payments), hybrids selectively represent extraordinary medium term value in our view. However, it remains our intention to steadily reduce absolute exposure to hybrids into any strength.

[1] All percentages are plus GST net of reduced input tax credits. Please refer to the Information Memorandum for a more detailed explanation.

Market Commentary

Confirmation of weak global and domestic economies, together with falling asset values are feeding through company earnings and outlook commentary, characterising the first half of the corporate reporting season. Nevertheless, since late December we have witnessed a technical risk appetite bounce as investors added some cyclical risk to equity portfolios.

Despite ongoing global easing in short term interest rates (including another 100 bps cut in Australia in early February), it remains unclear whether broad-based stimuli and funding initiatives will result in increased levels of spending or merely capital hoarding. While evidence has emerged for a potential soft landing in China (eg bank lending is on the increase), we remain cautious on extrapolating data and remain of the view that underlying demand will likely remain weak over the medium term.

Surveys and indicators point to a significant increase in the Australian unemployment rate. This will be the key factor driving further falls in Australian official interest rates and other stimulatory policy initiatives in H1 2009.

In recent weeks the focus of investors has once again become sharply focused on corporate balance sheets. Equity capital raisings continue to be a major feature of the market. In the six months to 10 Feb 2009, 52 companies have collectively raised A$36bn. Over coming months this focus is likely to shift to mid and smaller capitalisation companies.

Unsurprisingly there has also been a major reduction in forward earnings expectations, particularly in resource companies, despite macro and commodity data signalling that the de-stocking process that began in late 2008 is coming to an end. Analysts are also pointing to savage production cuts laying the foundations of price recovery in base metals. As in many industries, a clearer picture of underlying growth or otherwise can only emerge once the inventory de-stocking process has passed.

At the stock level it is likely that the equity market will continue to be fixated with corporate financial flexibility and solvency, at least through H1 2009. The quality of company balance sheets and cash-flows remain paramount factors for selecting stocks in this environment. Only stocks with these characteristics will change hands on remotely normal PE multiples and dividend yields. In contrast, stocks which are perceived to be financially vulnerable in a debt-constrained environment will continue to trade on very low forward multiples as shareholders risk further equity dilution and dividend cuts.

Despite ongoing macro challenges we have positioned the portfolio on the basis that there is a good chance that calendar 2009 will be an up year for equities but will be characterised by meaningful rallies and pullbacks.

We have set a mid 50% gross equity market exposure via a defensive long portfolio as we proceed through the company reporting season. However, we are aware that valuations of defensive stocks, with very few exceptions, are becoming stretched and investors are looking for opportunities in beaten down cyclical names. We are selectively taking advantage of equity raisings. Your managers are retaining a medium term long bias towards building a portfolio of beneficiaries of lower short term interest rates (sustainable yield), selected strongly funded industrials with a small exposure to financials, domestic and global cyclicals.

Further Fund Information

Net Returns to 31 January 2009

	PAELSF Net Return [2]	PAELSF Gross Return [3]	Cash	ASX 300 Accumulation Index	PAELSF Average Net Exposure [4]
1 Month	2.3%	2.4%	0.3%	-4.8%	55.0%
3 Months	-9.0%	-8.7%	1.1%	-11.0%	60.7%
6 Months	-21.2%	-20.6%	2.8%	-27.3%	59.5%
1 year	-28.3%	-27.3%	6.4%	-34.7%	57.1%
2 years p.a.	-22.4%	-17.9%	13.3%	-33.7%	49.3%
Since inception [5]	31.0%	62.1%	31.5%	26.6%	49.9%
Annualised Volatility	12.3%	13.1%	0.2%	14.6%	

[2] Net Performance, after all fees and charges.

[3] Gross Performance excludes both management and performance fees.

[4] Exposure is delta adjusted for derivatives and preference shares.

[5] Inception date: May 2004

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Risk Characteristics	
Annual Volatility	12.3%
Sharpe Ratio	0.13
Downside Deviation	5.5%
Sortino Ratio	0.29
Risk Free Rate Assumed	4.25%

Portfolio Structure	
Long Positions	23
Short Positions	1
Equity Long Exposure	56.5%
Equity Short Exposure	0.5%
Net Long Exposure	56.0%

Performance Contributors	
Equity Longs	-0.7%
Equity Shorts	1.4%
Derivatives	0.0%
Fixed Interest	1.6%

Top 5 Positions (in alphabetical order)	20.9%
Origin Energy	
QBE Insurance Group	
Spark Infrastructure	
Transfield Services	
Westpac Banking Corporation	

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