

Pengana Global Resources Fund

March 2009 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\$5.20m
Minimum Initial Investment Amount	A\$100,000	Application Price at Month End	A\$1.1112
Inception Date	March 2007	Redemption Price at Month End	A\$1.1023

Fund Commentary

Fund Performance (A\$, net of fees) ²													
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2009	2.4%	0.1%	0.5%										2.9%
2008	-7.5%	8.7%	-2.7%	5.3%	6.2%	0.3%	-4.3%	-2.0%	-20.3%	-12.5%	-6.2%	-0.4%	-32.9%
2007			1.6%	4.9%	9.0%	11.5%	1.1%	-3.9%	10.8%	10.1%	-3.0%	0.2%	49.1%

- **Commodities and Resource equities rally largely on US dollar depreciation**
- **Minmetals \$0.825/share bid for Oz Minerals blocked by the Australian Government**
- **Re-capitalisation of resources sector continues**

Commodity price movements during March trended higher with oil, copper, lead and zinc advancing 11.48%, 19.03%, 24.10% and 20.92% respectively in US\$ terms. However, solid US dollar based advances in these commodities failed to provide impetus for nickel which fell 2.79% for the month and for gold which weakened 2.11%. The improvement in the commodity prices was in response to (unofficial) signs of stabilisation in the US financial system, but mostly on an anti-US dollar trade post the US Federal Reserve's stimulus measures over the month, which saw the US dollar depreciate strongly against most currencies. Despite this being supportive for the gold price, the abatement of fear and need for a safe-haven investment weighed more on the yellow metal over the period. Benchmark prices for the coal complex were also settled over March, with thermal coal at US\$70/tonne, PCI at US\$90/tonne and hard coking coal at US\$129/tonne all largely in line with market expectations.

The Fund was positioned with a net long position of 64.2% as at the end of March and gross exposure of 84.2%. While economic data for the month turned from being universally negative, there is still little at this juncture to support a fundamental consumption based scenario to perpetuate the rally in commodity prices and equities. Accordingly, we judiciously increased the economic leverage of the portfolio over the month but not at any cost and not by buying poor quality stocks. Over March we increased weightings to gold, oil and thermal coal. With respect to industrial metals, exposure to copper, lead and zinc were increased in preference to aluminium, iron ore and steel.

Re-capitalisation of mining companies continued during March as companies sought to take advantage of improved sentiment and prices to raise equity, with First Quantum, Mirabela Nickel, Aquarius Platinum, Mineral Deposits and Citadel Resources all issuing new equity. Minmetals proposed takeover of Oz Minerals was blocked by the Australian government on national interest issues with Prominent Hill being proximal to the Woomera weapons testing facility. Minmetals subsequently re-struck its proposal, excluding Prominent Hill. Lastly, FIRB and the Australian Government approved Fortescue Metals Group's issue of 225 million new shares to Hunan Valin Iron and Steel.

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 shown after all fees and expenses, and assume reinvestment of income. Past performance is not a reliable indicator of future performance. The value of investments can go up and down.

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Market Commentary

Equity markets continued their slide early in the month in response to ongoing fears relating to the nationalisation of investment banks with the US government increasing its stake in Citigroup to 36% and in response to AIG recording a record quarterly loss of US\$61.7 billion which prompted a further US\$30 billion of government aid to the insurer in an ongoing bid to support the beleaguered financial system. The immediate future of US automakers General Motors and Chrysler remained uncertain after US auto-sales plummeted to 27 year lows in early 2009.

Despite the US unemployment rate rising to a 25 year high of 8.1%, the losing streak in global equity markets was snapped on news that the Chinese economy will reflate through spending on infrastructure and manufacturing (with no real news over the 4 trillion yuan already pledged). Comments from policy makers that the effects of monetary and fiscal stimulus were starting to gain traction and that the economy was stabilising were met with data evidencing consumer prices in China falling for the first time in over 6 years and that the export and manufacturing sectors are looking grim.

A wave of optimism swept through the market on a leaked memo from the Citigroup CEO to staff that their company was profitable in the first two months of 2009 (after losing a total of US\$37.5 billion) and that additional government aid was not required. Markets rallied hard on signs of a stabilisation in the US financial system with these comments eventually echoed by Bank of America Corp, JP Morgan Chase and Barclays Group. Talk of re-instating an up-tick rule making it harder to short sell equities added support to the change in share price momentum.

While the IMF warned of a Great Recession and further downgraded their global growth expectations to below zero (the worst in a lifetime) and American Express credit card defaults jumped to 8.7% in February, the market embraced an unexpected rebound in US housing starts and permits, which rose for the first time in 10 months.

The equity rally was perpetuated by the Obama administration offering incentives for private investors to take up to US\$1 trillion of toxic assets off bank balance sheets and on US durable goods orders rising for the first time in 7 months (after being revised down to -7.3% for the prior month).

News of US corporate profits plunging a record US\$120 billion in the fourth quarter as the US economy shrank at its fastest pace since 1982 was drowned out as the US Federal Reserve announced its intention to buy up to US\$1 trillion of long dated bonds. This quantitative easing saw bond prices rally the most in one day since 1962, reducing the cost of long term debt to the private sector and debasing the US dollar which depreciated 8.7% against the Australian dollar.

The end of a volatile month was punctuated with the US government's refusal to provide additional aid to the auto sector citing that companies had to become viable in their own right and that General Motors moving to bankruptcy may be the best outcome for the company and sector.

Portfolio Action

The portfolio commenced the month defensively positioned as the slew of deteriorating economic data drove resource equity prices lower. The subsequent run in commodity stocks was largely in response to (unofficial) signs of stabilisation in the US financial system, but mostly on an anti-US dollar trade post the US Federal Reserve's barrage of announced stimulus measures. Commodity prices, denominated in US dollars, ran largely on speculative and investment demand as the Greenback depreciated strongly over the month. Short covering, liquidity and a re-pricing of risk perpetuated the rally with market volumes still down around 50% year on year. However, while economic data for the month turned from being universally negative, there is still little at this juncture to support a fundamental demand-pull scenario to perpetuate the rally in commodity prices and equities on the basis of consumption. We cautiously increased the economic leverage of the portfolio over the month but not at any cost and not by buying poor quality stocks.

Over the month we increased our exposure to gold by adding to our holdings in Barrick Gold and Newmont Mining, in part funded by exiting our position in Central Rand Gold. Stimulus measures announced by the US Federal Reserve which de-based the US dollar, in particular versus the Euro being seen as supportive for the gold price. In a similar vein, we increased our exposure to oil by adding Total SA, Apache corp. and Oil Search Limited to the portfolio. Benchmark coal prices for 2009 were set over March and subsequently we added Centennial Coal and Xstrata to the portfolio as well. After a capital raising to secure needed funding, we opened a new long position in Mirabela Nickel.

The Pengana Global Resources Fund is long biased, A\$ denominated and run without currency hedging. The A\$ being a commodity currency is a natural hedge to our long biased portfolio, insulating our offshore equity values (in part) against a sell-off in the market. During March, we saw a strong rally in the Australian dollar (AUDUSD +8.7%, AUDGBP +7.8%, AUDCAD +7.4%) as a result of the US Federal Reserve's stimulus moves and the Reserve Bank of Australia suspended its easing cycle.

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In Australia, the S&P/ASX Metals and Mining Accumulation Index ended February up 9.41%. BHP Billiton outperformed the broader market finishing the month up 14.1%. Rio Tinto shares (waiting for Australian government approval over the proposed Chinalco alliance) also strongly outperformed the broader market rising 35.3%, despite the Australian Government declining the proposed acquisition of Oz Minerals by China's MinMetals. In the United States, the S&P Metals and Mining index increased 14.17% in March. In London the FTSE 350 Mining Index ended the month up 24.95% whilst the S&P/TSX Global Mining Index recorded a gain of 15.43%.

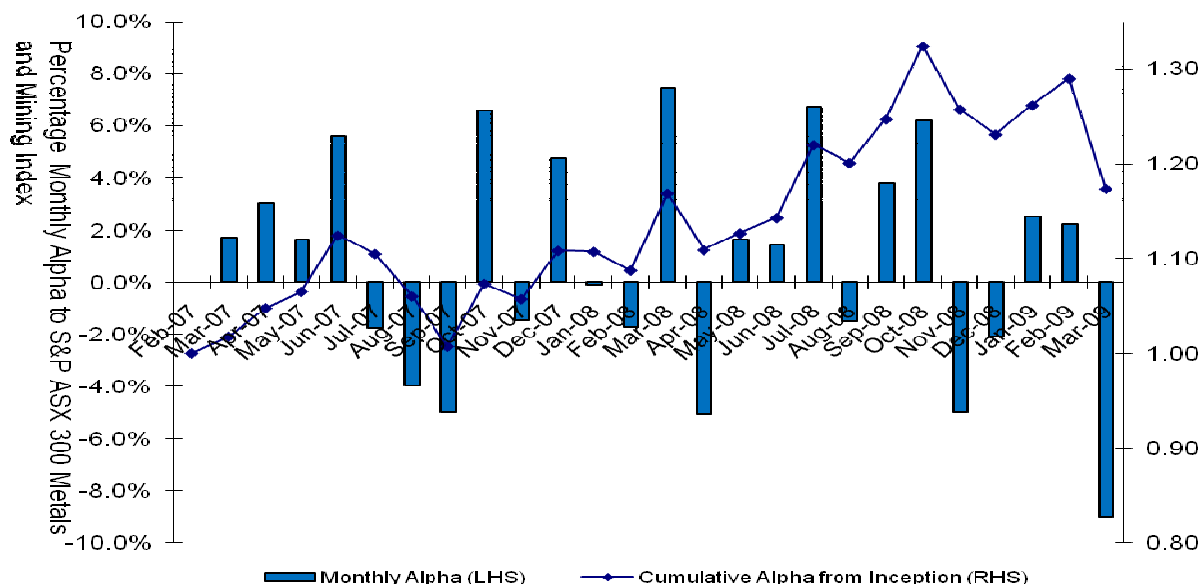
Key Contributors

Key contributors to the portfolio's performance during March included Rio Tinto plc (+30.50%), BHP Billiton plc (+25.23%), Xstrata plc (+18.39%), Centennial Coal (+24.46%), and Vale (3.18%).

Fund Performance

Net Returns to 31 March 2009 ³	Pengana Global Resources Fund	S&P ASX 300 Metals and Mining	FTSE 350 Mining	S&P 500 Metals and Mining
1 Month	0.45%	9.49%	24.95%	14.17%
3 Months	2.95%	8.69%	13.38%	-1.52%
6 Months	-15.74%	-11.02%	-22.37%	-31.00%
12 Months	-29.33%	-31.70%	-49.26%	-56.95%
Since inception⁴	+3.06%	-15.79%	-24.63%	-49.77%

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



³ Performance figures are net of all fees and expenses, and assume reinvestment of income. Past performance is not a reliable indicator of future performance.

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. The value of investments can go up and down

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Commodity Price Changes for March 2009

Commodity	US\$ Price Change	A\$ Price Change	€ Price Change
Oil	11.48%	3.24%	6.93%
Gold	-2.11%	-10.35%	-6.66%
Copper	19.03%	10.79%	14.48%
Aluminium	5.85%	-2.39%	1.30%
Zinc	20.92%	12.68%	16.37%
Nickel	-2.79%	-11.03%	-7.34%
Lead	24.10%	15.86%	19.55%
Tin	-5.23%	-13.47%	-9.78%

Portfolio Structure (as at end of March 2009)	
Number of Stocks	33
Gross Exposure	84.2%
Net Long Exposure	64.2%
Breakdown by Strategy	Directional Long 74.2% Directional Short -10.0%

Top 5 Positions (in alphabetical order)
BHP Billiton
Lihir Gold
Rio Tinto
Vale
Xstrata

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