Pengana Australian Equities Long Short Fund March 2009 Update

PENGANA CAPITAL

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$8.39m
Minimum Initial Investment Amount	A$100,000	**Application Price at Month End**	Application: A$0.8186
Inception Date	May 2004	**Redemption Price at Month End**	Redemption: A$0.8160

Fund Commentary

Fund Performance (A$, net of fees) [2]

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	**YTD**
2009	2.3%	-5.8%	7.6%										**3.7%**
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 March 62% net long, ending the month 55% net long. After sundry income and all costs and fees, the net return for March 2009 was 7.6%. The month end mid unit price was $0.8173 per unit.

The ASX 300 Accumulation Index rallied 8.1% over the month of March, the largest one month rise since Dec 1993 as sentiment towards equities improved dramatically after the US Fed aggressively began buying fixed income securities and re-launched its plan to deal with toxic assets. Under-exposure to low PE cyclicals became apparent as the market rallied as investors rotated out of defensive stocks and added risk to portfolios. Notably, Technology, Bank and Materials sectors outperformed, while Healthcare, Telco and Consumer Staples underperformed.

Key Contributors / Detractors

Best performers in the long portfolio were Hastie Group (+17%), Westpac (+13%), Transfield (+13%) and National Australia Bank (+12%). Economically defensive exposures including Telstra (-10%) and Woolworths (-4%) were detractors. Short positions held were minimal, based on our view that the limited shorting opportunity set was heavily over-sold.

The Fund's residual exposure to two hybrid securities, representing 11.4% of the fund at month-end, contributed 1.6% to performance, after detracting 4.5% in February. TPI (parent to TPAPA) is currently suspended from official quotation as the group considers capital structure options including reduction and refinancing of its debt and the introduction of potential cornerstone

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

[2] Net Performance, after all fees and charges and assuming reinvestment of income. Past performance is not a reliable indicator of future performance. The value of investments can go up and down.

investors. FCL (parent to FCLPA) continues to progress significant asset sales and the securities have rallied strongly off the lows. It remains our intention to steadily reduce absolute exposure to these hybrids into any strength.

Market Commentary

There are signs that US housing activity may have reached its lows. Evidence (IP, PMI, credit growth) has continued to emerge for a potential soft landing in China following strong stimulus measures but uncertainty is focused on durability and momentum.

Domestic economic data remained very weak through March. GDP declined during the Dec quarter, confirming that the non-farm economy is in recession. Housing finance data improved, driven by first home buyers (and large cuts to mortgage rates) but total building activity continued to decline. The unemployment rate continued to increase, prompting a further easing in official interest rates to 3.0% in early April. The Australian dollar has benefited from the global reduction in risk aversion and the re-flation trade.

A significant increase in the unemployment rate presents the key economic risk for the domestic economy and the financial sector in particular. Although a lagging indicator, this will be the key factor driving further falls in Australian official interest rates and other stimulatory policy initiatives over the remainder of 2009.

De-leveraging is ongoing and is being reflected in corporate credit markets but the absolute cost of debt may have peaked for many companies. While there is little doubt that macro news flow will remain poor in the near term, we are now weighing the relative merits of defensive vs cyclical stock positions, expecting the rate of change from negative macro news to moderate.

In the short term intense pressure on cash-flows, combined with toughening attitudes from lenders, is likely to see further equity raisings and dividend cuts for many companies, especially in highly geared price-taking cyclical sectors.

However, as we have seen over the past month, in times of acute bearishness it only takes the smallest change in expectations (even to slightly less negative) to trigger a substantial rally in equity markets. Value has re-emerged in beaten up defensives and laggard cyclicals. The equity market's one year forward PER has fallen below the long term average and is the lowest in 12 years, probably understating 2010 earnings risk. The growth outlook for industrials lies mainly with a few defensive domestic oligopolies and health care stocks. We believe that market psychology has shifted from selling rallies to buying the dips, so therefore expect shallower pull-backs from this point.

We have set a 60% gross and net equity market exposure via a relatively defensive long portfolio but have lifted cyclical exposure. We are also selectively taking advantage of equity raisings, mainly as a tradable event. Your managers are retaining a medium term long bias towards building a portfolio of sustainable yield plays including selected high quality utilities, strongly funded less economically sensitive industrials, financials, with a small and variable exposure to domestic and global cyclicals, mainly energy. We will constantly monitor data and market behaviour to confirm that the themes outlined above remain in place.

Further Fund Information

Net Returns to 31 March 2009

	PAELSF Net Return [2]	PAELSF Gross Return [3]	Cash	ASX 300 Accumulation Index	PAELSF Average Net Exposure [4]
1 Month	7.6%	7.7%	0.3%	8.1%	55.0%
3 Months	3.7%	4.0%	0.9%	-1.9%	56.7%
6 Months	-20.2%	-19.6%	2.2%	-20.0%	59.2%
1 year	-22.0%	-20.9%	5.8%	-29.8%	56.3%
2 years	-22.9%	-18.9%	12.7%	-34.9%	48.8%
Since inception [5]	32.8%	64.8%	32.2%	30.5%	50.2%
Annualised Volatility	12.6%	13.4%	0.2%	14.6%	

[3] Gross Performance excludes both management and performance fees and assumes reinvestment of income. Past performance is not a reliable indicator of future performance. The value of investments can go up and down.

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

[5] Inception date: May 2004

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Further Fund Information (continued)

Risk Characteristics	
Annual Volatility	12.9%
Sharpe Ratio	0.21
Downside Deviation	10.06%
Sortino Ratio	0.27
Risk Free Rate Assumed	3.25%

Portfolio Structure	
Long Positions	25
Short Positions	1
Equity Long Exposure	55.6%
Equity Short Exposure	0.5%
Net Long Exposure	55.1%

Performance Contributors	
Equity Longs	6.26%
Equity Shorts	-0.19%
Derivatives	0.0%
Fixed Interest	1.61%

Top 5 Positions (in alphabetical order) 19.4%
Healthscope
Origin Energy
Spark Infrastructure
Transfield Services
Westpac Banking Corporation

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