

Pengana Australian Equities Long Short Fund

April 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\$8.75m |
| Minimum Initial Investment Amount | A\$100,000 | Application Price at Month End | Application: A\$0.8547 |
| Inception Date | May 2004 | Redemption Price at Month End | Redemption: A\$0.8520 |

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% | 4.4% | | | | | | | | | 8.3% |
| 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 April 55% net long, ending the month 44% net long. The average net exposure during the month was 57%. The fund was reasonably well positioned for a bounce in beta, the extent of which surprised us. After reaching stock-specific valuation targets we reduced cyclical exposure and exited the month with a more defensive portfolio. After sundry income and all costs and fees, the net return for April 2009 was 4.4% ². The month end mid unit price was \$0.8534 per unit.

The ASX 300 Accumulation Index rallied 5.7% over the month of April. Outperforming sectors were Consumer Staples (+12%) and Consumer Discretionary (+12%) with strong March quarter sales reports from HVN, WOW and WES buoying the broader retail sector and reflecting the benefits of stimulus spending. After a strong start bank stocks pulled Financials lower following disclosure of a sharp deterioration in loan books, joining Healthcare as an underperforming sector in a rising market.

Key Contributors / Detractors

Best performers in the long portfolio were Wesfarmers, Transfield, Rio Tinto, Downer EDI and Woolworths. These long positions were subsequently sold when valuation targets were achieved. Short positions held were limited to two positions and contributed positively to performance. The Fund continued to benefit at the margin from ongoing deep discount placements and entitlement offers.

The Fund's residual exposure to two hybrid securities, representing 11.7% of the fund at month-end, contributed 1.0% to performance. 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 investors. ELD previously FCL (parent to ELDP) continues to progress significant asset sales to improve the balance sheet. It remains our intention to steadily reduce absolute exposure to these hybrids.

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.

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Outlook

The fallout from the extended period of low interest rates, easy access to credit and mis-pricing of risk continues to work its way through the financial system and the global economy. A co-ordinated global government and central bank response at both the fiscal and monetary levels has allowed many companies to recapitalise their balance sheets and avoid an Armageddon type scenario. However, the recent 25 -30% recovery in global equity markets has shifted the risk / reward equation away from fundamental investors.

The bulls are encouraged by ongoing growth stimulation in China as reflected by lending growth, buoyant commodity prices and improvements in the second derivative of bad news generally. The bears are focusing on deteriorating macro data, demanding near-term cyclical equity valuations and secondary equity issuance deal fatigue setting in.

Domestically, a substantially lower interest rate environment for consumers, lower fuel prices and widespread retail level discounting is providing a significant counterbalance to the deteriorating outlook for the average wage earner. A significant increase in the unemployment rate presents the key economic risk for the domestic economy and the banking 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 / 2010.

The growth outlook for industrials lies mainly with a few defensive domestic oligopolies and health care stocks. PE expansion in cyclical names now suggests that markets will soon require some evidence of the early signs of economic recovery, not just slowing in the rate of deterioration of economic data. Nevertheless, given the weight of cash on the equity market sidelines, we believe that market psychology has shifted from selling rallies to buying the dips, so therefore expect shallower pull-backs.

At the time of writing the portfolio has a 61% gross and 59% net equity market exposure (41% cash) via an increasingly defensive long portfolio. Selectively we continue to take advantage of equity raisings, mainly as a tradable event. Your managers have also taken the opportunity to re-establish positions in quality defensive companies at attractive price levels following the further unwinding of PE premiums as investors have rotated into more leveraged plays. We are generally reluctant to chase cyclical and high-beta stocks at this time.

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 and banks, with a minor and variable exposure to cyclical.

Further Fund Information

Returns to 30 April 2009

| | PAELSF Net Return ³ | PAELSF Gross Return ⁴ | Cash | ASX 300 Accumulation Index | PAELSF Average Net Exposure ⁵ |
|-----------------------|--------------------------------|----------------------------------|-------|----------------------------|--|
| 1 Month | 4.4% | 4.5% | 0.2% | 5.7% | 57.0% |
| 3 Months | 5.9% | 6.2% | 0.8% | 9.0% | 57.3% |
| 6 Months | -3.6% | -3.0% | 1.9% | -2.9% | 59.0% |
| 1 Year | -23.8% | -22.8% | 5.4% | -29.0% | 56.8% |
| 2 Years | -21.0% | -17.3% | 12.5% | -33.2% | 49.4% |
| Since Inception | 38.7% | 72.2% | 32.5% | 38.0% | 50.3% |
| Annualised Volatility | 12.9% | 13.6% | 0.3% | 14.9% | |

Risk Characteristics

| | |
|------------------------|-------|
| Annual Volatility | 12.9% |
| Sharpe Ratio | 0.29 |
| Downside Deviation | 9.95% |
| Sortino Ratio | 0.38 |
| Risk Free Rate Assumed | 3.00% |

Portfolio Structure

| | |
|-----------------------|-------|
| Long Positions | 23 |
| Short Positions | 2 |
| Equity Long Exposure | 46.6% |
| Equity Short Exposure | 2.5% |
| Net Long Exposure | 44.1% |

³ Net Performance, after all fees and charges. Past performance is not a reliable indicator of future performance. The value of investments can go up and down.

⁴ Gross Performance excludes both management and performance fees.

⁵ Exposure is delta adjusted for derivatives and preference shares.

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| Performance Contributors | |
|--------------------------|-------|
| Equity Longs | 3.52% |
| Equity Shorts | 0.06% |
| Derivatives | 0.00% |
| Fixed Interest | 0.95% |

| Top 5 Positions (in alphabetical order) | 16.7% |
|---|-------|
| Healthscope | |
| Macquarie Infrastructure Group | |
| National Australia Bank | |
| Spark Infrastructure | |
| Westpac Banking Corporation | |

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