

# Pengana Asian Equities Long Short Fund

## March 2009 Update



1 of 3

### Pengana Asian Equities Long Short Fund

The Pengana Asian Equities Long Short Fund (the "Fund") provides investors with equity exposure to companies within Asia, including Japan, India and China (through Hong Kong). The fund is managed out of Sydney, Australia, and supported by the Pengana Asia Research team based in Singapore. The Fund utilises the core strategy to be both long and short securities, to better manage market volatility and to seek absolute returns.

### Fund Features

<b>Style</b>	Long/Short Equity	<b>Management Fees <sup>1</sup> (monthly)</b>	1.5% p.a.
<b>Comparative Benchmark</b>	MSCI AC Asia Index	<b>Performance Fees <sup>1</sup> (annually)</b>	20% of NAV above a prior high water mark
<b>Investors</b>	Wholesale Investors Only	<b>AUM at Month End</b>	A\$2.2m
<b>Minimum Initial Investment</b>	A\$100,000	<b>Application Price at Month End</b>	A\$1.114
<b>Inception Date</b>	01 July 2008	<b>Redemption Price at Month End</b>	A\$1.1084

### Fund Commentary

<b>Fund Performance (A\$, net of fees) <sup>2</sup></b>													
	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Since Incep. <sup>3</sup>
2008/2009	-2.0%	-1.5%	3.3%	4.9%	4.0%	-0.3%	1.4%	-1.6%	2.7%				<b>11.1%</b>
<b>MSCI AC Asia Index (A\$, gross)</b>													
2008/2009	-0.3%	3.5%	-5.6%	-2.8%	-1.8%	1.6%	2.8%	-10.5%	-1.8%				<b>-14.7%</b>
<b>MSCI Asia ex-Japan Index (A\$, gross)</b>													
2008/2009	1.1%	1.7%	-8.9%	-9.2%	-4.7%	2.6%	3.7%	-7.0%	4.6%				<b>-16.1%</b>

The Fund returned 2.7% net of fees for March 2009, compared to the -1.8% return by the MSCI Asia including Japan Index. Since inception in July 2008, the Fund has returned 11.1% net of fees, compared to the Index's -15%. For the month, the Fund was successful in managing its equity and currency exposure and reduced the risk of loss of returns due to the sharp appreciation of the Australian dollar against local currencies in Asia. In spite of the firm performance by the Asian equity markets in local currency terms with the Index returning 6.1%, the Australian dollar's nearly 8% appreciation has led to a negative finish. The Fund, by reducing its exposure in local currencies through the month, has managed to reduce the currency loss to just 3%.

The Fund's equity portfolio, on the other hand, performed well, returning 6.4% in spite of its relatively low participation in the market with gross exposure of less than 50% and net exposure averaging approximately 30%. Successful stock selection, strategically focusing on being 'long' cyclical sectors, such as technology and material stocks, and being 'short' defensives, including utilities and consumer staples, contributed to the performance. This strategy has been consistent since late last year when our fundamental analysis had

<sup>1</sup> All percentages are plus GST net of reduced input tax credits. Please refer to the Information memorandum for a more detailed explanation.

<sup>2</sup> Net performance, after all fees and charges, and assuming reinvestment of all income. Past performance is not a reliable indicator of future performance.

<sup>3</sup> Inception date: 01 July 2008

# Pengana Asian Equities Long Short Fund

## March 2009 Update



2 of 3

shown valuations in the economy - sensitive sectors were at extreme levels, discounting continuous earnings deterioration for the foreseeable future. Based on our analysis, valuations in some of the world's most competitive auto parts companies in Japan such as Denso were discounting no recovery in earnings for the next five years. Such a scenario, influenced by the market's depressed sentiment, has missed an important element in corporate management that companies rarely stay at the same level both for profitability and business expansion as they adapt to changes in their business environment. A harsh business environment often forces companies to restructure their costs to remain competitive and ultimately can lead to an improvement in their profitability over time. As a result, it is unreasonable to expect corporate earnings to stay at current levels forever. While we were waiting for catalysts, including stability in the credit market and economic data from China to emerge to turn more bullish on the market, we gradually raised our long exposure to capital goods in both Japan and China and anticipated vulnerability in the defensive sectors, following their substantial outperformance.

Individual contributors for the month include Elpida, Japan's largest DRAM manufacturer, and ASM Pacific Technology, one of the world's largest semiconductor equipment companies based in Hong Kong. Defensive plays such as Fuji Oil and Tokyo Electric Power in the short portfolio also generated positive returns, but most of those returns were offset by the short positions in China, including China Resources Land, one of the largest property developers in China, and Anhui Conch, one of the largest cement producers in the country. China Resources Land performed strongly after it announced better-than-expected results for 2008. The China short positions were not directional calls, but instead were used to reduce some beta in the China portfolio, after its strong performance through the month.

2008/2009	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Since Inception
<b>Portfolio Structure</b>										
Gross Exposure (%)	44	68	40	61	13	2	38	49	42	
Net Exposure (%)	33	11	12	6	0	2	28	35	10	
<b>Performance Attribution <sup>2</sup></b>										
Fund Gross Return (% A\$)	-1.9	-1.4	3.4	6.2	5.1	-0.2	1.8	-1.8	3.4	15.2
Currency Return (%)	1.0	4.8	6.8	10.9	3.1	0.3	2.8	-2.7	-3.0	24.7
Equity Return (% in local currencies)	-2.9	-6.2	-3.4	-4.7	2.0	-0.5	-1.0	0.9	6.4	-9.5
MSCI AC Asia Index (% A\$)	-0.3	3.5	-5.6	-2.8	-1.8	1.6	2.8	-10.5	-1.8	-14.7
Currency Return (%)	1.2	7.3	7.9	18.6	2.1	-2.2	8.6	-6.5	-7.9	23.6
Equity Return (% in local currencies)	-1.5	-3.9	-13.5	-21.3	-3.9	3.8	-5.9	-4.1	6.1	-38.4

### Market Outlook

The global financial markets have shown stability in recent weeks with equity markets worldwide recovering strongly following policy announcements by the US government and the central bank to stabilise the financial system. Some of the most important announcements include the US Fed's decision to adopt the Quantitative Easing program by purchasing government debts and assets backed by housing mortgages, as well as the Treasury's plan to cleanse the banks' balance sheets by introducing private capital to buy those toxic assets from the banks. The key policies to revitalise the US economy that we had been focusing on including an adoption of Quantitative Easing by the Fed, aggressive fiscal spending by the federal government and a concrete plan to clean up the banks' toxic assets, have now been laid out. While it is debatable whether these policies and plans will be effective, it is encouraging to see the first crucial steps of initiating the policies have been taken and in coming months, we will focus on how these initiatives are put

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# Pengana Asian Equities Long Short Fund

## March 2009 Update



3 of 3

into action. We are optimistic that if these policies are put into action according to plan, it is possible that the global economy will avoid a prolonged depression and likely recover through early next year. The major risk to this scenario is that governments and central banks worldwide scale back their plans once signs of economic recovery emerge – this was a crucial mistake that the Japanese government made during the 90s when it dealt with the country's decade long recession.

In Asia, nearly all of the regional economies have reported sequential improvement in their recent economic data including industrial production and exports, and while they are still posting annual falls, the pace of those falls are generally slowing. In China, encouragingly, reported data showed not only sequential improvement but annual expansion in some areas such as property transactions and industrial production. While China's improvement in business activities are being led by the government's stimulus spending, the improvement in other regional economies including Japan, which are more export oriented in economic structure, may indicate stabilisation or possibly a pick-up in consumption in developed countries in the coming months. Indeed, recent data on housing and private consumptions in the US have been better than expected.

We expect financial markets to continue to stabilise with equity markets remaining firm in the short term as public projects initiated by the US and Chinese governments start to kick in. The Fed's programs to inject liquidity into the financial system are taking place, which will relax some of the liquidity constraints in the system witnessed in previous months. However, it is too early to expect a sustained uptrend in the equity markets because the future of corporate earnings is held by the governments and the global economic outlook will depend on how successfully the governments implement those announced policies. Furthermore, it is unclear when the banks in the US will seriously clean up their balance sheets, and what the economic impact will be, especially related to bankruptcies. Through this year, the market is likely to swing between optimism and pessimism and could remain trapped in a trading range. Such trading-range markets will offer opportunities to disciplined investors with a firm focus on fundamentals and valuations to take advantage of sharp movements in share prices associated with sentiment swings.

Our strategy in Asia, including Japan, remains being 'long' cyclical stocks including steel, shipping and technology and being 'short' defensives due to the continued valuation gap despite the recent outperformance by cyclicals. With a longer term focus, many Chinese capital goods companies are attractive as they can potentially emerge to be globally competitive players once the current economic crisis is passed. These include Lonking, a construction machinery company, and China South Locomotive and Rollingstock, one of the two major rollingstock companies in China. To protect the equity long portfolio from a potential pull back, we use Chinese property and cement stocks as a hedge. For currencies, we have reduced our exposure in local currencies further and raised our holding in the Australian dollar, in line with our positive outlook on the materials stocks.

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