

Pengana Asian Equities Long Short Fund

December 2008 Update



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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, 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

Style	Long/Short Equity	Management Fees¹ (monthly)	1.5% p.a.
Comparative Benchmark	MSCI AC Asia Index	Performance Fees¹ (annually)	20% of NAV above a prior high water mark
Investors	Wholesale Investors Only	AUM at Month End	A\$2.2m
Minimum Initial Investment	A\$100,000	Application Price at Month End	A\$1.0872
Inception Date	01 July 2008	Redemption Price at Month End	A\$1.0818

Fund Commentary

Fund Performance (A\$, net of fees)²

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2008	-	-	-	-	-	-	-2.0%	-1.5%	3.3%	4.9%	4.0%	-0.3%	8.4%
MSCI AC Asia Index (A\$, gross)													
2008	-	-	-	-	-	-	-0.3%	3.5%	-5.6%	-2.8%	-1.8%	1.6%	-5.5%
MSCI Asia ex-Japan Index (A\$, gross)													
2008	-	-	-	-	-	-	1.1%	1.7%	-8.9%	-9.2%	-4.7%	2.6%	-16.8%

The Fund was down 0.3% net of fees for December but was up by 8.4%² since inception in July 2008. This compares with the MSCI AC Asia Index, which was up by 1.6% for the month but down by 5.5% since the Fund's inception. Through the month, the financial markets, especially the credit and currency markets, have shown signs of stabilising. The spread between the US dollar 3-month London interbank rate (LIBOR) and the yield on 3-month US Treasuries (which is seen as an indicator of credit risk), has fallen sharply from over 4% in October 2008 to 1.3% at the end of December. Also, the premium of some highly rated companies' debt over the US Treasury rate has come down. These developments suggest risk appetite is returning and has helped boost equity markets performance, led by many value stocks typically traded below book value.

While it was still too early to anticipate a full recovery in equity market performance, it was also risky to be too negative and the risk in holding short positions, especially in the economically sensitive sectors, had risen. As a result, we decided to reduce our participation in the market, opting to monitor developments in both the credit and currency markets with a focus on whether liquidity was flowing back into the economic system.

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 all income. Past performance is not a reliable indicator of future performance.

Pengana Capital Ltd (ABN 30 103 800 568, Australian financial services licence number 226566) is the issuer of units in the Pengana Asian Equities Long Short Fund (the "Fund"). Only wholesale clients may invest in the Fund. An Information Memorandum for the Fund is available and can be obtained from our distribution team. A person should obtain a copy of the Information Memorandum and should consider the Information Memorandum carefully before deciding whether to acquire, or to continue to hold, or making any other decision in respect of, the units in the Fund. This report was prepared by Pengana Capital Ltd and does not contain any investment recommendation or investment advice. This report has been prepared without taking account of any person's objectives, financial situation or needs. Therefore, before acting on any information contained within this report a person should consider the appropriateness of the information, having regard to their objectives, financial situation and needs. Neither Pengana Capital Ltd nor its related entities, directors or officers guarantees the performance of, or the repayment of capital or income invested in, the Fund. Past performance is not a reliable indicator of future performance.

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Portfolio Structure						
	July 08	Aug 08	Sep 08	Oct 08	Nov 08	Dec 08
Long Exposure	38.5%	39.0%	26.4%	33.7%	6.5%	2.4%
Short Exposure	-5.7%	-28.6%	-14.0%	-27.7%	-6.3%	0%
Gross Exposure	44.2%	67.6%	40.4%	61.4%	12.9%	2.4%
Net Exposure	32.9%	10.4%	12.4%	6.0%	0.2%	2.4%

Market Outlook

Looking forward to 2009, while it is still difficult to predict how the economy will develop through the year and how effective the governments' stimulus programs will be in supporting the global economy, there is some room for cautious optimism, especially in the US and China. For example, the US 30-year fixed mortgage rate has come down to below 5% recently from 6.5% late last year after the Federal Reserve implemented its program to purchase mortgage-backed securities to inject liquidity into the housing market. This has boosted refinancing demand and it should reduce the mortgage burden for some home owners. In addition, a broader help to the consumer has been the sharp fall in energy prices, which acts like a tax cut, and should offer some support to consumer spending. In China, money supply in December grew over 20% year on year and nearly doubled sequentially. Also, the Chinese steel companies are reported to have raised steel prices after five months of consecutive cuts since mid last year. While it will take time for these developments to become apparent in the macro data, they are important catalysts for equity investors to focus on the cyclically-sensitive companies, most of which are currently trading at very attractive valuations.

The current general consensus of lack of confidence in taking risks in investing in equities is offering good opportunities to buy into some of the more globally competitive companies in the region. They include the auto-parts companies in Japan, technology companies in Korea, and the IC design/semiconductor fabless companies in Taiwan. Many of them are trading at their lowest valuations since listing, not to say the Asian financial crisis. Based on our assumptions, some of these companies are already pricing in substantial losses going forward, which will wipe out most of their profits generated in the last three years.

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