

Pengana Asian Equities Long Short Fund

November 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 Fees ¹ (monthly)	1.5% p.a.
Comparative Benchmark	MSCI AC Asia Index	Performance Fees ¹ (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\$1.0902
Inception Date	01 July 2008	Redemption Price at Month End	A\$1.0848

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%		8.7%
MSCI AC Asia Index (A\$, gross)													
2008	-	-	-	-	-	-	-0.3%	3.5%	-5.6%	-2.8%	-1.8%		-7.1%
MSCI Asia ex-Japan Index (A\$, gross)													
2008	-	-	-	-	-	-	1.1%	1.7%	-8.9%	-9.2%	-4.7%		-19.0%

The Fund rose by 4.0% net of fees for November and by 8.7% since inception in July 2008. This compares with the MSCI AC Asia Index which was down by 1.8% for the month and down by 7.1% since the Fund's inception. The strong positive return for the month was attributable to the Fund's hedging strategy, which focused on protecting the long equity exposure through short selling equities as well as non-Australian dollar currency exposure. The long short equity portfolio generated 1.6% return in local currency terms for the month while its foreign currency exposure, primarily in Japanese yen, produced 2.4%.

In the current uncertain investment environment, especially with financial institutions globally going through a deleveraging process, currency management has become an important tool in managing risks for equity investment, especially for Australian investors. Due to Australia's current account deficit, the country has been relying on foreign funding in recent years, with its relatively high interest rates attracting foreign capital. This has led to a high correlation between the Australian dollar's performance (especially against the Japanese yen) and the equity market's performance. This correlation has intensified in recent years as carry trade activities accelerated under the loosening monetary environment worldwide, which has pushed the Australian dollar sharply higher

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. 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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against the Japanese yen in tandem with the equity market which has gone up sharply. However, once liquidity dries up as we are experiencing currently, the Australian dollar depreciates sharply as global investors unwind their carry trades and withdraw capital from Australia. Understanding and utilising this relationship, together with the short selling equity strategy, has helped us protect the long equity investments and limit downside risk.

During the month and following a sharp recovery in the market, we reduced the Fund's long exposure in the growth sensitive sectors such as basic materials and shipping, which had been accumulated in previous months, and we reduced the Fund's yen exposure accordingly. We shifted our focus to more defensive pair trade positions, primarily in the consumer sector such as food and retail.

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

Market Review

The Asian equity market continued to show instability in spite of a sharp rebound from the October low earlier this month. Liquidity constraints in the credit markets globally and poor economic data in recent months have weighed heavily on investors' sentiment. However, further dramatic losses were prevented following the announcement of a stimulus package worth US\$588 billion by the Chinese government and a series of interest rate cuts by the regional central banks. It is encouraging that the regional governments, in particular the Chinese government, have taken initiatives to support their economies using aggressive fiscal and monetary policies.

While we believe, if these policies are implemented promptly, the region is likely to avoid falling into the deflation trap experienced in the late 1990s, we are cautious about the economic outlook and corporate earnings in the short term. The regional economy is likely to experience a sharp slowdown toward mid 2009, when the government stimulus spending will start to have an impact. While a lot of quality companies are already trading at attractive valuations, downside risk persists until investors' confidence return. From an absolute return perspective, we believe it is prudent to keep a hedging strategy in place instead of having an outright long exposure.

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