

Pengana Asian Equities Long Short Fund

May 2009 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 the Asia Pacific region, 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

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\$2.4m
Minimum Initial Investment	A\$100,000	Application Price at Month End	A\$1.2046
Inception Date	01 July 2008	Redemption Price at Month End	A\$1.1986

Fund Commentary

Fund Performance (A\$, net of fees)^{2,3}													
	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Since Incep. ⁴
2008/09	-2.0%	-1.5%	3.3%	4.9%	4.0%	-0.3%	1.4%	-1.6%	2.7%	4.6% ³	3.4%		20.2%
MSCI AC Asia Index (A\$, gross)													
2008/09	-0.3%	3.5%	-5.6%	-2.8%	-1.8%	1.6%	2.8%	-10.5%	-1.8%	6.6%	3.6%		-5.8%
MSCI Asia ex-Japan Index (A\$, gross)													
2008/09	1.1%	1.7%	-8.9%	-9.2%	-4.7%	2.6%	3.7%	-7.0%	4.6%	10.4%	6.5%		-1.2%

The Fund returned 3.4%³ net of fees for May 2009, compared to the 3.6% return by the MSCI Asia including Japan Index. Since inception in July 2008, the Fund has returned 20.2% net of fees, compared to the Index's -5.8% return. The Fund's equity exposure, participating in the strength of the Asian equity markets, continued to drive performance this month with a gross return of 6.2% in local currency terms, with exposure to China and Hong Kong the prime contributors. Prudent management of currency has also minimised the negative impact from the sharp appreciation of the Australian dollar against the local currencies during May, with the Fund losing 1.9% from its local currency exposure while the Index lost 6.6%.

The equity portfolio's strong performance this month was attributed to the decision late last month to shift exposure to industrials and technologies from materials which had performed strongly through April. During the month, technology exposure such as Lenovo, China's largest PC manufacturer, and AAC Acoustic, an acoustic component manufacturer, were among the top performers with exposure to China's infrastructure

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.

³ On 22 April 2009 the Fund expanded its investment universe from the Asia region to the Asia Pacific region.

⁴ Inception date: 01 July 2008

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projects such as China South Locomotives & Rollingstock generating substantial returns. Exposure to the financial sector, and in particular the real estate exposure, including Beijing Capital Land, a mid-sized real estate developer, and Hong Kong Land, the largest office landlord in Central, Hong Kong, has substantially overcome the negative returns from the short positions in China Resources Land and China Overseas Land, two large property developers in China. Acknowledging the strong sentiment in the region especially in China-related securities, trading activities in the short portfolio have been benign.

Through the month, we reduced our exposure in China and Hong Kong especially in those markets' real estate sector and shifted to developed markets such as Japan. Over the last six months, the MSCI Asia ex-Japan index has returned over 40% in local currency terms and nearly 50% in US dollar terms, compared to only 9% in MSCI Japan Index (local currency) and close to 3% in the S&P 500 Index. Some markets have recovered to the levels before the global financial crisis. While fundamentals and economic activities continue to show signs of stability, recent performance in emerging markets has mainly reflected the normalisation of global liquidity.

In order for emerging markets to continue to show strength, global economic recovery is essential and economic stability in the developed world, including the US and Japan, will hold the key. Indeed, recent economic data from developed countries such as the Consumer Confidence index in the US and Industrial Production Index and PMI Index in Japan have all shown sequential improvement. As financial markets continue to stabilise and liquidity regains 'normality', the financial sector and especially the real estate sector is likely to benefit most, as credit becomes more available. In addition, governments around the world have implemented policies to offer tax benefits for new home purchases. These will likely stimulate a cyclical recovery in housing especially in Japan, Australia and Singapore. We raised our exposure to Japan's real estate sector, focusing on residential property developers such as Tokyo Tatemono, and we also initiated exposure in Australian real estate as we believe that an end is in sight for capital raisings to repair balance sheets.

2008/2009	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr ⁵	May	Jun	Since incep'n
Gross Exposure (%)	44	68	40	61	13	2	38	49	42	41	59		
Net Exposure (%)	33	11	12	6	0	2	28	35	10	14	43		
Performance Attribution²													
Fund Gross Return (% A\$)	-1.9	-1.4	3.4	6.2	5.1	-0.2	1.8	-1.8	3.4	5.7	4.3		26.9
• Currency Return (%)	1	4.8	6.8	10.9	3.1	0.3	2.8	-2.7	-3	-1.3	-1.9		24.3
• Equity Return (% in local currencies)	-2.9	-6.2	-3.4	-4.7	2	-0.5	-1	0.9	6.4	6.9	6.2		2.6
MSCI AC Asia Index (% A\$)	-0.3	3.5	-5.6	-2.8	-1.8	1.6	2.8	-10.5	-1.8	6.6	3.6		-5.8
• Currency Return (%)	1.2	7.3	7.9	18.6	2.1	-2.2	8.6	-6.5	-7.9	-4.6	-6.6		18.7
• Equity Return (% in local currencies)	-1.5	-3.9	-13.5	-21.3	-3.9	3.8	-5.9	-4.1	6.1	11.2	10.2		-24.5

Market Outlook

During the month, we made a trip to China and Hong Kong and visited a group of manufacturing companies in the auto, machinery and technology industries. The trip's prime focus was to access Chinese companies' factory management quality relative to Japan, which houses some of the most competitive manufacturing companies in the world, especially in the auto and machinery industries. In the next few years, we believe productivity improvement especially in the manufacturing sector, will be the key to drive China's future growth and its domestic consumption. The trip has concluded a few structurally positive points for China's

⁵ On 22 April 2009 the Fund expanded its investment universe from the Asia region to the Asia Pacific region.

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future development including the potential of its manufacturing industry to move up the value chain by offering higher value-add products with increased productivity. The large purchase of advanced 'heavy industry' equipment from Europe over the last few years has expanded China's capacity dramatically in a short period of time. However, going forward, such investment is unlikely to continue as companies are more focused on quality enhancement rather than capacity expansion by efficiently utilising these equipments to produce higher quality products. While this development may not be so positive for many global capital goods companies, it is a very positive development in China's industrialisation process as it will produce a group of globally competitive companies for its future. We expect, in coming years, many Chinese companies will likely generate higher free cash flow as productivity will improve and capital investment is controlled. This will translate into higher domestic consumption.

Secondly, China's flexible employment system, more flexible than Japan in our opinion, especially among private companies and listed state owned enterprises (SOEs), has enabled management to focus on profitability to gain global competitiveness. Many companies in China have a large portion of their hiring from part-time workers with salaries often linked to individual performance. While this is very positive for companies especially listed companies, it has also increased the responsibility of the government, particularly when the economy goes through down-cycles. This flexibility in employment, which allows for more speedy adjustment in production, has partially helped many Chinese companies avoid serious damage late last year when the financial crisis hit the global economy. This is a big contrast to Japan, where many blue chip companies saw their earnings disappearing completely in merely a few months. As China is moving to its second stage of industrialisation with potential for productivity improvement, we think long term investment opportunities are likely to be from the steel, auto and technology industries.

While the points raised above are very positive for China's long term growth, they also highlight the cyclical issues in the short term. As China has expanded its capacity, especially in the material and auto industries over the last few years, many of these industries are still experiencing low utilisation rates and that's why the government policies to generate stable demand are crucial until global growth re-emerges. Secondly, the flexible employment has potentially made China's private consumption more cyclical, led by domestic economic growth as well as global growth. Due to the wide income gap between coastal cities and rural areas, the export sector still plays an important role in the country's consumption. Finally, the wealth effect from the domestic equity and property markets cannot be underestimated with many parties including government officials, private entity entrepreneurs and SOEs' factory workers involved as their financial benefits are directly or indirectly linked to these asset prices. The recent recovery in China's A-share market is an indication of the return of confidence, which will continue to play a role in supporting retail sales as well as property transactions in the coming months. To conclude, while structurally China's long term growth prospects are well in place, short term economic developments are still very cyclical, depending on the global economic environment.

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