# Pengana Asian Equities Long Short Fund June 2009 Update



## Pengana Asian Equities Long Short Fund

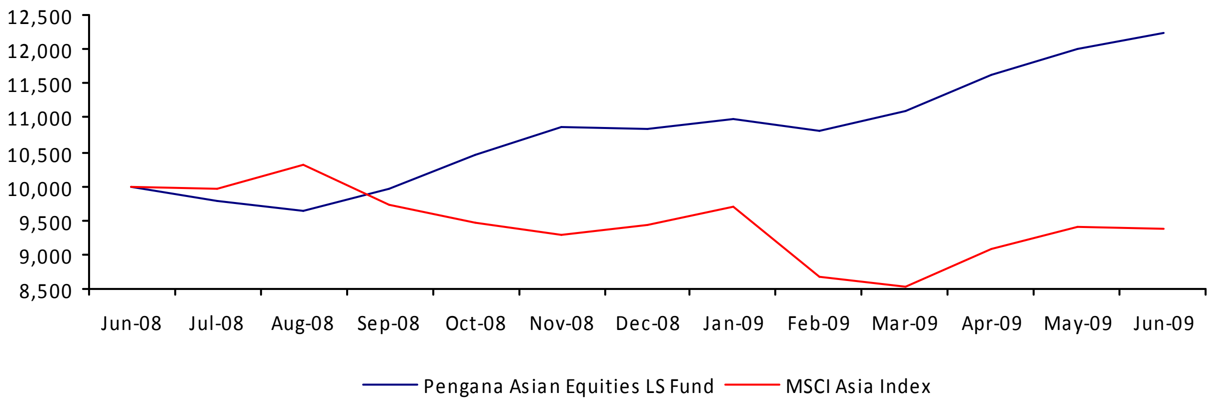
The Pengana Asian Equities Long Short Fund (the "Fund") provides investors with equity exposure to companies within the Asia Pacific region. The Fund is managed out of Sydney, Australia, and supported by the Pengana Asia Research team based in Singapore. The Fund utilises the core strategy to be both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

## Fund Features

| | | | |
|---|---|---|---|
| **Style** | Long/Short Equity | **Management 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$2.4m |
| **Minimum Initial Investment** | A$100,000 | **Application Price at Month End** | A$1.2278 |
| **Inception Date** | 01 July 2008 | **Redemption Price at Month End** | A$1.2216 |

## Fund Commentary

| **Fund Performance (A$, %, net of fees) [2,3]** | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Jul | Aug | Sep | Oct | Nov | Dec | Jan | Feb | Mar | Apr | May | Jun | **Since Incep. [4]** |
| 2008/09 | -2.0 | -1.5 | 3.3 | 4.9 | 4.0 | -0.3 | 1.4 | -1.6 | 2.7 | 4.6[3] | 3.4 | 1.9 | **22.5** |
| **MSCI AC Asia Index (A$, %, 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 | -0.3 | **-6.1** |




[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

The Fund returned 1.9%[2,3] net of fees for June 2009, compared to the -0.3% return by the MSCI Asia Index. Since inception in July 2008, the Fund has returned 22.5%[2,3] net of fees, compared to the Index's -6.1% return. The prime contributor for the month has been the long positions in the financial sector, in particular the real estate holdings in both Japan and Australia.

As regional equities (outside Japan) recovered strongly from their lows in February this year, Japan has lagged substantially in spite of its corporate sector's economically-sensitive nature. Compared to many companies in the Asia Pacific region, Japanese companies are generally more operationally-leveraged and as top-line sales stabilise or recover, their earnings recover much more strongly. This is due to their high fixed cost earnings structure. In our opinion, Japan is the most cyclical economy and its companies are among the most leveraged to global growth in the region. However, while evidence emerged that the global economy was stabilising with credit markets improving, many Japanese companies, especially domestic-focused real estate and retail companies, were still traded at substantial discounts to their book value, suggesting that the market was expecting them to continue to produce losses for the foreseeable future. Based on our research and proprietary models, many Japanese companies offered substantial upside from these depressed levels if their top-line sales could stabilise and profit margins improve along with global growth over the next three to five years.

The Japanese government's recent implementation of a series of policies to stimulate the domestic economy, including offering subsidies for the purchase of energy efficient home electronics and cars as well as financing support for real estate companies (in particular, listed real estate investment trusts (J-REITs)), is encouraging. This has been the catalyst for the Fund to raise its exposure in real estate after being absent from this sector for most of the past year. Tokyo Tatemono, a mid-sized real estate company with core assets in central Tokyo, and Mirvac in Australia have been some of the best performers this month. Due to its exposure in the residential property development, combined with poor sentiment towards the sector, Tokyo Tatemono, in spite of its quality asset portfolio, was traded at 0.4x book value when it was identified.

The Fund's China exposure, on the other hand, was disappointing with a negative return recorded for the month despite positive contributions from the short exposure in property (China Resources Land) and auto (Dongfeng Motor). The Fund turned cautious on Asia ex-Japan, reducing exposure through the month, even though valuations are not stretched and our view on China's growth over the longer term remains positive, as the speed of the recovery in share prices, has outpaced fundamentals. For further upside, an assurance from the corporate sector that they can deliver earnings as expected, is vital. The incoming earnings results announcements will be monitored closely.

| Top Five Performers | Bottom Five Performers |
|---|---|
| Tokyo Tatemono (Japan, long) | Lonking Holdings (China, long) |
| Nippon Electric Glass (Japan, long) | Shanghai Electric (China, long) |
| Cyber Agent (Japan, long) | Olympus Corp (Japan, short) |
| Mirvac Group (Australia, long) | Cosco Pacific (China, long) |
| China Construction Bank (China, long) | Realtek Semiconductor (Taiwan, long) |

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## Market Outlook

The equity markets in the region have recovered strongly from their March lows with materials and financials among the best performing sectors. We believe this recovery has reflected an adjustment from an overly pessimistic stance late last year, which left a lot of economically-sensitive companies at substantially oversold levels. Now that this adjustment appears to be largely done, attention will turn to fundamentals and investors will distinguish between those companies with solid fundamentals which can survive the current economic down-turn from those that will struggle. In the coming weeks, many companies will release their first-half results and their outlook for the rest of the year, which will be carefully scrutinised by investors. We anticipate volatility to rise in the short-term until new evidence emerges that the economy in the developed world is indeed heeling.

While we still like the technology sector for its recent low investment and low capacity build-up, we are turning more cautious on the material sector, which has performed vigorously following strong price recovery in many commodities, driven by China taking advantage of falling prices earlier this year to build up their strategic reserves. The material sector has been one of the most heavily invested industries over the past few years, particularly by China, and as demand is unlikely to quickly return to the levels of the last few years, over-supply is likely to linger for a period of time, delaying price recovery. The Fund has used this sector as a funding source to hedge the long exposure in financials and technology.

| Exposure by Sectors | Long | Net | Exposure by Countries | Long | Net |
|---|---|---|---|---|---|
| **Growth Sectors** | | | HK & China | 10% | 3% |
| Energy & Materials | 0% | -9% | Taiwan | 3% | 3% |
| Ind. & Con. Discretionary & Tech | 19% | 14% | South Korea | 2% | 2% |
| Financial & Real Estate | 19% | 18% | Singapore | 2% | 2% |
| **Defensive Sectors** | | | ASEAN | 0% | 0% |
| Con. Staples & Healthcare | 2% | 0% | Japan | 15% | 6% |
| Telecom & Utilities | 0% | 0% | Australia | 8% | 8% |
| **Equities** | **40%** | **24%** | **Equities** | **40%** | **24%** |
| Futures | 0% | 0% | | | |
| **Total** | **40%** | **24%** | | | |

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