

Pengana Australian Equities Long Short Fund

June 2009 Update



Fund Description

The Pengana Australian Equities Long Short Fund is a long / short Australian equities strategy, with a long bias and a blend of fundamental bottom-up and top down approaches to stock selection. The Fund targets 20 - 30 longs selected from the largest 300 stocks on the ASX and 5 - 10 shorts selected from the top 200. The manager has a research-based investment process to evaluate investments capable of generating target returns over the medium term, with a strong focus on cash flow generation and growth at a reasonable price. Macro and technical overlays are used to assist in portfolio construction, exposure sizing and market timing. The average net long position since inception has been 50 to 60%. The Fund aims to provide investors with an absolute return of 12 to 15% per annum over the medium term with relatively low volatility (equity type returns with lower volatility). The manager also adopts procedures to manage risk and preserve the capital of investors. The Fund is managed out of Sydney.

Fund Features

Style	Fundamental, GARP	Management Fees ¹ (monthly)	1.25% per annum
Benchmark	ASX 300 Accum Index	Performance Fees ¹ (semi-annually)	20% per annum with a high water mark
Investors	Wholesale Clients only	AUM at Month End	A\$8.67m
Minimum Initial Investment Amount	A\$100,000	Application Price at Month End	Application: A\$0.9064
Inception Date	May 2004	Redemption Price at Month End	Redemption: A\$0.9036

Fund Commentary

Fund Performance (A\$, net of fees) ²													
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2009	2.3%	-5.8%	7.6%	4.4%	1.4%	4.6%							14.8%
2008	-4.2%	-3.2%	-3.8%	7.0%	-0.4%	-8.7%	0.3%	5.1%	-4.8%	-13.5%	-10.1%	-1.0%	-32.8%
2007	1.3%	0.9%	1.2%	1.9%	3.2%	0.7%	0.4%	0.8%	2.7%	1.7%	-0.8%	-0.2%	14.5%
2006	2.1%	1.2%	4.3%	0.9%	-1.1%	2.6%	0.5%	0.1%	0.7%	3.6%	0.9%	2.1%	19.0%
2005	2.6%	-1.3%	0.2%	-0.6%	-0.8%	3.3%	0.7%	4.2%	2.6%	-0.9%	3.0%	1.8%	15.8%
2004					0.8%	1.1%	5.3%	-0.2%	2.7%	5.9%	2.9%	0.7%	20.8%

The fund commenced the month of June 62% net long, ending the month 58% net long. After sundry income and all costs and fees, the net return for June 2009 was 4.6%², outperforming the market for the month despite an average 60% net equities exposure over the period. The month end mid unit price was \$0.9050 per unit.

The ASX 300 Accumulation Index rallied 4.0% over the month of June, led by the banks. Downgrades to growth forecasts by the World Bank proved to be an unlikely catalyst for profit taking, seeking out the relative safety of Telcos (+9%) and Healthcare (+8%). The A\$ reached U\$0.83 during the month before easing back. Materials (flat) and Utilities (-4%) were a drag on market.

Key Contributors / Detractors

Best performers in the long portfolio were MCU (+15%), Resmed (+12%), Telstra (+9%), Tishman Speyer Office Fund (+15%) and Westpac (+7%). Long positions in DUET (-13%), Newcrest (-7%) and Toll Holdings (-11%) detracted from performance. Only one short position was held during the period.

The Fund's residual exposure to two hybrid securities, representing 8.6% of the fund at month-end, added 1.1% to performance. TPI (parent to TPAPA) has been voluntarily suspended from official quotation since February as the group considers capital structure options including reduction and refinancing of its debt and the introduction of potential cornerstone investors. The other residual exposure is ELDPA. Despite asset sales by the parent ELD, debt is not reducing as quickly as expected. We continue to take every opportunity to reduce absolute exposure to these hybrids.

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 distribution. Past performance is not a reliable indication of future performance. The value of investments can go up and down

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Outlook

There are reasons to be more positive on a 2010 global economic outlook but more questions are being asked about the durability of any recovery. The recapitalisation of the financial and corporate sectors is progressing, risk spreads have narrowed substantially, lead indicators of industrial production have turned upwards (as the inventory cycle starts to turn) and demand for commodity and energy inputs is resilient in key emerging economies, China and India in particular. Growth remains a feature of these economies and Australia is a major beneficiary. Furthermore, it appears that US and UK house prices have troughed and consumer sentiment globally is starting to improve. Domestic retail sales are holding up well and Australian housing is responding to stimulus. Several economists that we follow believe that an official interest rate tightening cycle will commence by June 2010.

In our view there is a risk of relapse and it remains unclear how much of the relative health of Australia's (and China's) economy is due to the pull-forward effects of stimulus and restocking. We also remain aware that wholesale funding costs for Australia's major bank lenders are still rising. In our view this means that the RBA may need to offset any additional increases in funding costs by cutting the base rate further, given the importance of housing to any domestic economic recovery.

Deleveraging will continue to be a key global thematic. Governments are countering this trend and playing an increasing role in generating economic growth. While a cyclical recovery appears likely (giving strategists the confidence to call a "V" shaped recovery), the balance of probabilities point to shorter and sharper surges in growth. We believe that the combined structural impediments of de-leveraging and lower appetite for risk will keep a lid on equity valuations over the medium term. In this context, we are increasingly concerned by the burden being carried by the employed US consumer.

Our research suggests that despite all the signs of a resilient consumer, the outlook for business investment looks extremely challenging. We will continue to approach companies that are exposed to or service the capex of others with caution.

Needless to say it is difficult to get strong conviction, particularly as we enter the reporting season and heightened risks over current levels of cash flow generation and the corporate earnings outlook. With the prospect of shorter and sharper business cycles, assessing the macro environment will play a significant role in stock selection. Although markets are now being tested as we write this update, we believe that investor psychology has shifted from selling rallies to buying the dips, so therefore continue to expect shallower pull-backs.

Over the past half we had adopted a particularly cautious stance towards taking short equity positions, given the limited opportunity set brought about due to the inability to short financial stocks. However, we have resumed shorting as the opportunities arise. At the time of writing the portfolio has a 54% net equity market exposure. Selectively we continue to take advantage of attractive risk reward opportunities, whether classified as cyclical or defensive names. Your managers are retaining a medium term long bias towards building a portfolio of financials, high quality utilities, strongly funded less economically sensitive industrials, with a variable exposure to global and domestic cyclicals.

Further Fund Information

Returns to 30 June 2009					
	PAELSF Net Return	PAELSF Gross Return ³	Cash	ASX 300 Accumulation Index	PAELSF Average Net Exposure ⁴
1 Month	4.6%	4.7%	0.2%	4.0%	60.0%
3 Months	10.7%	11.1%	0.7%	11.5%	57.3%
6 Months	14.8%	15.6%	1.6%	9.4%	57.0%
1 Year	-11.2%	-10.0%	4.7%	-20.4%	58.3%
2 Years	-19.4%	-16.3%	11.9%	-31.3%	50.7%
Since Inception	47.1%	83.0%	33.1%	45.5%	50.5%
Annualised Volatility	12.8%	13.5%	0.3%	14.8%	

³ Gross Performance excludes both management and performance fees.

⁴ Exposure is delta adjusted for derivatives and preference shares.

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Risk Characteristics	
Annual Volatility	12.8%
Sharpe Ratio	0.37
Downside Deviation	9.79%
Sortino Ratio	0.49
Risk Free Rate Assumed	3.00%

Performance Contributors	
Equity Longs	3.75%
Equity Shorts	-0.07%
Derivatives	0.00%
Fixed Interest	1.05%

Portfolio Structure	
Long Positions	35
Short Positions	1
Equity Long Exposure	58.7%
Equity Short Exposure	1.1%
Net Long Exposure	57.6%

Top 5 Positions (in alphabetical order)	15.5%
ANZ Banking Group	
Consolidated Media Holdings	
Metcash	
National Australia Bank	
Spark Infrastructure	

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