Pengana Australian Equities Long Short Fund

July 2009 Update

PENGANA CAPITAL

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$9.23m
Minimum Initial Investment Amount	A$100,000	**Application Price at Month End**	Application: A$0.9834
Inception Date	May 2004	**Redemption Price at Month End**	Redemption: A$0.9804

Fund Commentary

Fund Performance (A$, net of fees and assuming reinvestment of distributions)

	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%	8.5%						**24.7%**
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 July 58% net long, ending the month 61% net long. After sundry income and all costs and fees, the net return for July 2009 was 8.5%, outperforming the market for the second consecutive month despite taking relatively low market risk with an average 55% net equities exposure over the period. The month end mid unit price was $0.9819 per unit.

The ASX 300 Accumulation Index rallied 7.3% over the month of July, the strongest monthly performance since March 2000. The surge was led by Industrials (+10%), Materials (+10%) and the major banks (+7 to 12%). Investors also chased beta via Media stocks as the macro outlook continued to improve. Healthcare (-3%), Utilities and Telcos lagged.

Key Contributors / Detractors

Best performers in the long portfolio were Asciano (+20%), AMP (+15%), Bluescope Steel (+21%), Hastie Group (+20%) and Mitchell Communications (+32%). Long positions in Lihir Gold (-6%) and Resmed (-3%) detracted from performance. Only one short position was held during the period, given our respect for positive market sentiment.

The Fund's residual exposure to two hybrid securities, representing 7.7% of the fund at month-end, added 4% to performance. TPI (parent to TPAPA) had been suspended from official quotation since February at $36.00 per share. Following comprehensive balance sheet recapitalisation, including investment from a new cornerstone shareholder, the securities relisted on 20 July and closed the month at $57.10 (+59%).The other residual exposure, albeit significantly reduced is ELDPA (+74%). The asset rich

[1] All percentages are plus GST net of reduced input tax credits. Please refer to the Information Memorandum for a more detailed explanation.

rural group has delayed bank refinancing during an asset sale programme which appears to be having some success, allaying worst fears over its highly geared balance sheet. We are reducing absolute exposure to these hybrids into current strength.

Outlook

Economic data and global leading indicators in July continued to surprise investors on the upside. The inventory cycle has turned up sharply. Investors are beginning to focus on the length and duration of the recovery phase, encouraged by the US reporting season and fund flows. The bulls are increasingly willing to look through not only the FY2009 reporting period ('historic') and FY2010 ('a year of consolidation') in identifying cyclicals which offer earnings leverage forecast to emerge in FY2011, as investment horizons broaden, the appetite for risk increases and the economy recovers.

Demand for commodity and energy inputs remains strong in key emerging economies, China and India in particular. Growth remains a feature and Australia is a major beneficiary. Furthermore, it appears that US and UK housing data has troughed and consumer sentiment globally has started to improve. Domestic retail sales are holding up well and Australian housing is responding to stimulus, leading the RBA to abandon an easing bias. It appears increasingly likely that an official interest rate tightening cycle will commence between Sept 2009 and June 2010. The recent strength of the A$, while reflecting commodity price strength, suggests the Australian central banks will be one of the first to tighten monetary policy.

However, de-leveraging will continue to be a key global thematic. It also remains unclear how much of the relative strength of Australia's (and China's) economy is due to the pull-forward effects of stimulus and restocking effects with final demand levels remaining uncertain. Overhanging negative issues appear to be posing a risk to equity markets over the medium to long term, rather than the next 6 to 12 months.

The balance of probabilities point to shorter and sharper surges in growth in the foreseeable future. However, 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 to longer term and we therefore remain wary of overpaying for both recovery and growth.

With the prospect of shorter and sharper business cycles, assessing the macro environment and its implications for portfolio construction will play a significant role in stock selection. After being tested on several occasions, we believe that investor psychology has shifted from selling rallies to buying the dips, so therefore continue to expect shallower pull-backs.

We have deliberately avoided aggressive shorting in recent times but intend to resume as the opportunities arise on a selective basis, as we enter the domestic reporting season. At the time of writing the portfolio has a 53% 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, defensive industrials with growth and strong cash flows (buying into weakness created by sector rotation but not necessarily at the expense of our cyclical stocks), with a variable exposure to global and domestic cyclicals.

Further Fund Information

Returns to 31 July 2009

	PAELSF Net Return [2]	PAELSF Gross Return [3]	Cash	ASX 300 Accumulation Index	PAELSF Average Net Exposure [4]
1 Month	8.5%	8.6%	0.2%	7.3%	55.0%
3 Months	15.1%	15.4%	0.7%	13.2%	56.7%
6 Months	21.8%	22.6%	1.5%	23.4%	57.0%
1 Year	-4.0%	-2.7%	4.4%	-10.3%	58.3%
2 Years	-12.8%	-9.6%	11.6%	-24.7%	51.3%
Since Inception	59.6%	98.8%	33.5%	56.2%	50.6%
Annualised Volatility	13.1%	13.8%	0.3%	14.9%	

[2] Net Performance, after all fees and charges and assuming reinvestment of distributions

[3] Gross Performance excludes both management and performance fees and assumes reinvestment of distributions

[4] Exposure is delta adjusted for derivatives and preference shares.

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Risk Characteristics	
Annual Volatility	13.1%
Sharpe Ratio	0.35
Downside Deviation	9.71%
Sortino Ratio	0.48
Risk Free Rate Assumed	3.00%

Portfolio Structure	
Long Positions	36
Short Positions	1
Equity Long Exposure	62.5%
Equity Short Exposure	1.0%
Net Long Exposure	61.5%

Performance Contributors	
Equity Longs	4.9%
Equity Shorts	-0.4%
Derivatives	0.0%
Fixed Interest	4.0%

Top 5 Positions (in alphabetical order) 14.6%
ANZ Banking Group
CSL Limited
National Australia Bank
Ramsay HealthCare
Spark Infrastructure

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