

# Pengana Asian Equities Long Short Fund

## July 2009 Update



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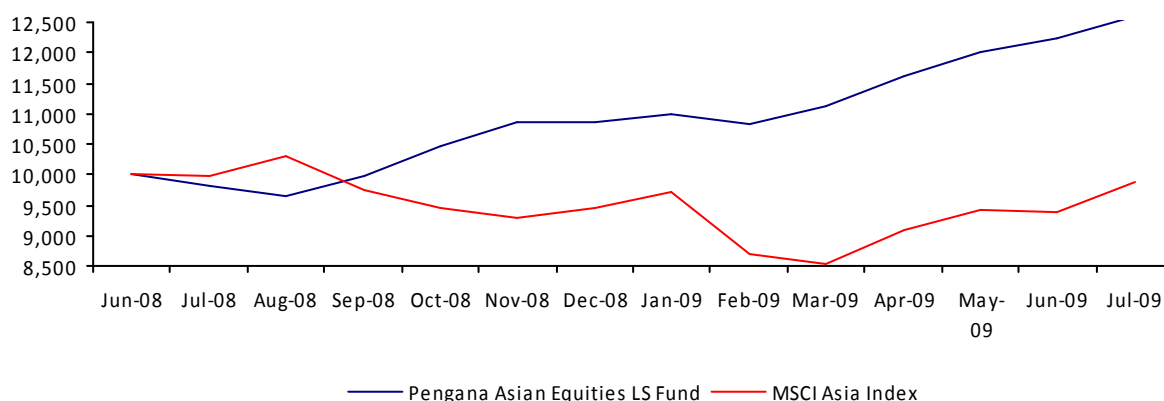
The Pengana Asian Equities Long Short Fund (the "Fund") provides investors with equity exposure to companies within the Asia Pacific region. The Fund is managed out of Sydney, Australia, and supported by the Pengana Asia Research team based in Singapore. The Fund utilises the core strategy to be both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

### Fund Features

<b>Style</b>	Long/Short Equity	<b>Management Fees <sup>1</sup> (monthly)</b>	1.5% p.a.
<b>Comparative Benchmark</b>	MSCI AC Asia Index	<b>Performance Fees <sup>1</sup> (annually)</b>	20% of NAV above a prior high water mark
<b>Investors</b>	Wholesale Investors Only	<b>AUM at Month End</b>	A\$2.1m
<b>Minimum Initial Investment</b>	A\$100,000	<b>Application Price at Month End</b>	A\$1.0405 (ex-distribution)
<b>Inception Date</b>	01 July 2008	<b>Redemption Price at Month End</b>	A\$1.0353

### Fund Commentary

<b>Fund Performance (A\$, %, net of fees) <sup>2,3</sup></b>													
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2009	1.4	-1.6	2.7	4.6 <sup>3</sup>	3.4	1.9	2.9						<b>16.2%</b>
2008							-2.0	-1.5	3.3	4.9	4.0	-0.3	<b>8.4%</b>
<b>MSCI AC Asia Index (A\$, %)</b>													
2009	2.8	-10.5	-1.8	6.6	3.6	-0.3	5.3						<b>4.7%</b>
2008							-0.3	3.5	-5.6	-2.8	-1.8	1.6	<b>-5.6%</b>



<sup>1</sup> All percentages are plus GST net of reduced input tax credits. Please refer to the Information Memorandum for a more detailed explanation.  
<sup>2</sup> Net performance, after all fees and charges, and assuming reinvestment of all distributions. Past performance is not a reliable indicator of future performance.  
<sup>3</sup> On 22 April 2009 the Fund expanded its investment universe from the Asia region to the Asia Pacific region.

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The Fund returned 2.9%<sup>2,3</sup> net of fees for July 2009, compared to the 5.3% return by the MSCI Asia Index. Since inception in July 2008, the Fund has returned 26.1%<sup>2,3</sup> net of fees, compared to the Index's -1.1% return. Strong returns in all markets especially in Hong Kong and China contributed to the Fund's performance for the month as global equity markets continued to rally, following the much better-than-expected corporate earnings from the US. Continuous improvement in macro economic data especially in the manufacturing sector from the US has also fuelled confidence of a speedy economic recovery in the developed world.

Growth sectors including industrials, materials and technology have all generated strong returns for the Fund. The strategy of long steel and short metal exposed companies in the material sector achieved satisfactory results, generating positive returns for both long and short positions. While hard commodity prices have recovered strongly due to China's re-stocking purchases earlier this year (as China took advantage of a sharp fall in prices), steel prices have remained depressed. However, as China's domestic demand for steel picks up, supported by strong infrastructure spending and housing construction, Chinese steel mills will find little incentive to export, reducing pressure on global supply. This should help lead to a stabilisation in prices and steel production globally, particularly once US auto production and housing starts also stabilise. In China, most mills have seen their utilisation rates recover to close to 100% and Baosteel, China's largest steel producer, has announced price increases recently. Besides Angang Steel, one of China's top three steel producers, our steel exposure is focused on Japan's Yamato Kogyo, a mid-sized electric arc furnace steel mill, whose earnings are primarily from its joint venture with Nucor in the US and its subsidiaries in Korea and Thailand. The company will not only benefit from infrastructure spending by the US government to support the economy but also the US housing recovery. In spite of its earnings growth potential, the company is still traded at 1x book value with net cash on its balance sheet.

Results from the portfolio's financial sector were less satisfactory as some of the Fund's long positions underperformed the short exposure during the month, leading to negative returns for the sector. In particular, the Fund's long position in Japan's Tokyo Tatemono gave back most of its returns from the previous month. On the other hand, China Overseas Land, which was used to hedge the China exposure, appreciated along with the market. However, we remain cautious on China's real estate sector and keep this sector as a funding source to hedge the China exposure. Following strong recovery in property transactions in China early this year, many of the listed property developers have performed strongly with many of them approaching October 2007 levels, when the Chinese equity market hit a record high. The Chinese government's initial intention to support the property sector by allowing ample liquidity to flow into the sector was to help developers clear their inventory so that they can start new construction and help increase economic activity. As this task has been largely achieved with inventory falling to extremely low levels in less than two months, there is little incentive for the government to continue supplying liquidity to the sector. However, the government is keen to see the sector play a role in supporting the economy by resuming construction. Local media recently reported that some local governments took away idle land as the developers failed to develop it, confirming the government's intention. The listed property developers' current high profit margin of well over 30-40% is not sustainable and going forward, we expect many of them will have to develop projects in the second and third tier cities with lower selling prices. This will likely lead to valuation adjustment for the sector, which is trading at a high premium to net asset value (NAV).

<b>Top Five Performers</b>	<b>Bottom Five Performers</b>
Toyota Boshoku (Japan, long)	Tokyo Tatemono (Japan, long)
Yamato Kogyo (Japan, long)	China Shenhua (China, short)
Angang Steel (China, long)	Macq. CountryWide Trust (Aust., short)
China Cosco Holdings (China, long)	Sumitomo Realty (Japan, short)
Ibiden (Japan, long)	Dongfeng Motor (China, short)

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### Market Outlook

One of the most interesting features in this month's global equity market rally is Japan's striking underperformance, returning only 3%, compared to close to double digit returns in all developed markets and nearly 13% in MSCI Asia ex-Japan Index (all in local currency terms). While international investors embraced global economic recovery, Japanese investors seem reluctant to anticipate such an outcome. Local investors' low expectations of their companies' growth prospects can be found in the benchmark of 1x book value used to set target prices by analysts in most domestic brokerage houses. As we believe the US is entering a cyclical recovery, supported by government spending, corporate earnings in Japan should recover strongly towards the second half of fiscal 2009 and into 2010. Through the month, the Fund increased its exposure to Japan, focusing on companies that will benefit from the US auto and housing recovery.

Across the region, it is also evident that investors are still cautious on developed economies' improvement as companies exposed to China's domestic demand have substantially outperformed those exposed to developed markets leading to considerable premiums in valuations. One such example is Dongfeng Motor, one of China's largest auto makers with most of its earnings from China. Its share price has rallied over 500% from last year's low, exceeding the previous high in October 2007. Currently trading at close to 2x expected book value, it has discounted a scenario that the company will expand its market share from currently 10% to 13% over the next five years with continuous margin expansion and that the Chinese auto market will grow by over 10% per annum in the same period. While such a scenario is not unrealistic, the current valuation offers little upside unless the company can deliver more than the model is forecasting. In contrast, Toyota Motor, the world's largest auto maker with 50% of its profit from developed markets, is currently traded at 1.2x historic book value, suggesting benign future growth. However, we expect the company's earnings to recover strongly next year with its very slim cost structure and production recovery.

As economic recovery in the Western World will lead to stabilisation and eventual revival of China's export sector, the Chinese government will see less need for further economic stimulation. Once it is comfortable that the target of 8% economic growth for 2009 is within reach, the central bank will likely fine tune its monetary policy and slow credit growth to prevent future inflation. As China's economic policies, both monetary and fiscal, are driven more by global economic conditions and less by domestic issues in isolation, China's economic development will continue to evolve with the global economy. In the coming months, those companies whose sales growth have been driven by credit growth and government support, such as the real estate and auto sectors, will likely see sequential weakness. Through the month, the Fund reduced its China exposure to neutral, concentrating its long exposure in the export and IPP (electric power production) sectors, while keeping Dongfeng Motor and selected property companies as a hedge.

Exposure by Sector	Gross	Net	Exposure by Country	Gross	Net
<b>Growth Sectors</b>			HK & China	30%	1%
Energy & Materials	19%	-1%	Taiwan	4%	4%
Ind., Con. Discretionary & Tech	44%	14%	South Korea	0%	0%
Financial & Real Estate	47%	15%	Singapore	7%	4%
<b>Defensive Sectors</b>			EM ASEAN	0%	0%
Con. Staples & Healthcare	10%	3%	Japan	68%	34%
Telecom & Utilities	3%	3%	Australia	20%	-3%
Futures	6%	6%	<b>Equities</b>	<b>129%</b>	<b>40%</b>
<b>Total</b>	<b>129%</b>	<b>40%</b>			

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