

Pengana Australian Equities Long Short Fund



August 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\$9.66m
Minimum Initial Investment Amount	A\$100,000	Application Price at Month End	Application: A\$1.0353
Inception Date	May 2004	Redemption Price at Month End	Redemption: A\$1.0321

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%	5.3%					31.2%
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 August 61% net long, ending the month 54% net long. After sundry income and all costs and fees, the net return for August 2009 was 5.3%, taking relatively low risk with an average 55% net equities exposure over the period. The month end mid unit price was \$1.0337 per unit.

The ASX 300 Accumulation Index rallied 6.6% over the month of August, the sixth consecutive monthly rise. The market, buoyed by a better than expected reporting season, was led by Financials including REITS (+12%) and Industrials (+11%), including strong performances from service companies and contractors. Healthcare also performed well (+7%). Telcos (-7%) and Utilities (-4%) lagged, exacerbated by the Future Fund's \$2.4bn Telstra sell-down.

Key Contributors / Detractors

Best performers in your long portfolio were ANZ Banking Group (+15%), CSR (+10%), Hastie Group (+19%), National Australia bank (+17%), Oil Search (+11%), Sonic Healthcare (+20%) and Toll Holdings (+17%). Long positions in Pacific Brands (-6%), Rio Tinto (-7%) and Telstra (-8%) detracted from performance. Minor short positions were held through the period, given our respect for positive market sentiment.

During the month we continued to reduce the Fund's residual exposure to hybrid securities, which at month end represented 3.2% of the portfolio, contributing 0.7% to performance.

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

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Outlook

Economic data and global leading indicators in August continued to surprise investors on the upside. The long awaited equity market pull-back associated with previous bear market rallies has failed to materialise as macro-economic data continues to support an economic recovery and the majority of central bankers acknowledge that the worst appears to have passed. The US is currently in the midst of the largest inventory up-cycle since the 1974 / 75 period with aggressive restocking now beginning to drive a strong recovery in manufacturing.

Australian economic growth also continues to surprise on the upside, with encouraging housing and employment data. Demand for commodity and energy inputs remains strong in key emerging economies, despite commodity prices retreating from recent highs. Many of the higher-frequency data points suggest the RBA is now well within the zone to tighten monetary policy, with the most hawkish expecting a Nov and Dec 2009 rate rise. This supports a relatively strong outlook for the A\$.

Equity market bulls continue to hold the view that, despite a strong rebound in the indices, equities do not appear to be overpaying for growth and remain undervalued on a cyclically adjusted earnings basis. The bulls are increasingly willing to look through FY2010 ('a year of consolidation') in identifying cyclicals which offer earnings leverage forecast to emerge in FY2011, as investment horizons broaden and the appetite for risk increases.

Investors are beginning to focus on the length and duration of the recovery phase, encouraged by a better than expected company reporting season, a positive earnings revision cycle and positive equity fund flows with cash levels remaining close to record highs. Consequently, investor psychology has shifted from selling rallies to buying the dips, so therefore continue to expect shallower pull-backs. The key issue remains how much recovery has already been priced and the potential impact of any reduction in the level of stimulus in the global economy. The fear is that markets have priced in too much; that expectations have outpaced the realistic prospects for global growth and that rather than a V-shaped recovery, we are in for a long period of tepid economic activity.

The balance of probabilities points to shorter and sharper surges in growth in the foreseeable future. However, we believe that the combined structural impediments of US unemployment (and therefore the consumer), a more muted recovery than in past cycles and growing government and state deficits, will keep a lid on equity valuations over the medium to longer term. We therefore remain wary of overpaying for both recovery and growth. This caution is reflected in our relatively low 45% net equity exposure.

While we remain pleased with your fund's risk-adjusted performance outcomes this year, we take the opportunity to remind unit-holders that this has been achieved largely through good stock selection, combined with relatively low net equity exposure and a low risk profile. It is not our mandate to chase the equity market in an attempt to outperform a rising market. We have deliberately avoided aggressive shorting in recent times but will resume as the opportunities arise on a selective basis. Selectively, we continue to take advantage of attractive risk reward opportunities, whether classified as cyclical or defensive. Your managers are retaining a medium term long-bias towards building a portfolio of financials, defensive industrials with growth and strong cash flows, with a variable exposure to cyclicals.

Further Fund Information

Returns to 31 August 2009					
	PAELSF Net Return ²	PAELSF Gross Return ³	Cash	ASX 300 Accumulation Index	PAELSF Average Net Exposure ⁴
1 Month	5.3%	5.4%	0.2%	6.6%	55.0%
3 Months	19.5%	19.9%	0.7%	19.0%	56.7%
6 Months	36.1%	37.0%	1.5%	37.9%	56.2%
1 Year	-3.9%	-2.5%	4.0%	-8.1%	57.7%
2 Years	-9.0%	-5.8%	11.3%	-21.4%	51.7%
Since Inception	68.0%	109.5%	33.8%	66.6%	50.7%
Annualised Volatility	13.2%	13.8%	0.3%	15.0%	

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	13.2%
Sharpe Ratio	0.55
Downside Deviation	9.64%
Sortino Ratio	0.75
Risk Free Rate Assumed	3.00%

Performance Contributors	
Equity Longs	4.8%
Equity Shorts	-0.3%
Derivatives	0.0%
Fixed Interest	0.7%

Portfolio Structure	
Long Positions	30
Short Positions	1
Equity Long Exposure	54.8%
Equity Short Exposure	-0.8%
Net Long Exposure	54.0%

Top 5 Positions (in alphabetical order) 15.4%	
Downer EDI	
Healthscope	
National Australia Bank	
Sonic HealthCare	
Telstra	

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