

Pengana Australian Equities Long Short Fund

September 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 protect 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\$10.26m
Minimum Initial Investment Amount	A\$100,000	Application Price at Month End	Application: A\$1.0713
Inception Date	May 2004	Redemption Price at Month End	Redemption: A\$1.0680

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%	3.5%				35.7%
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 September 54% net long, ending the month 62% net long. After sundry income and all costs and fees, the net return for September 2009 was 3.5%. The average net equity exposure for the month was 52%. The month end mid-unit price was \$1.0697 per unit.

The ASX 300 Accumulation Index rallied 6.3% over the month of September, the seventh consecutive monthly rise. With no significant negatives emerging, investors continued to embrace sectors with leverage to an improving economy. The Financial, REIT and Consumer Discretionary sectors outperformed while the Telcos, Energy, Utilities and Materials lagged. The equity market has now rallied 51% from its low in March 2009 and remains 31% off its pre GFC high in November 2007.

Key Contributors / Detractors

Best performers in your long portfolio were ANZ Banking Group (+15%), Hastie Group (+23%), National Australia bank (+8%), and Oz Minerals (+8%). Long positions in CSR (- 8%) and Resmed (- 5%) detracted from performance. Minor short positions were held through the period, given our respect for positive momentum.

During the month we continued to reduce the Fund's residual exposure to hybrid securities, which at month end represented 2.1% of the portfolio.

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

Australian economic growth continues to surprise on the upside, with encouraging confidence, housing, spending and employment data. Demand for commodity and energy inputs remains strong in key emerging economies. The RBA has been sufficiently encouraged to remove its emergency level target rate and is well within the zone to continue to tighten monetary policy. This supports a continued relatively strong outlook for the A\$.

Equity market bulls continue to hold the view that, despite a strong rebound in the indices, equities investors are not overpaying for growth and equities still remain slightly 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.

The consensus fear is that markets have generally priced in too much earnings recovery, particularly for developed economies; that expectations have outpaced the realistic prospects for sustainable global growth and that following a modest V-shaped recovery and 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, driven mainly by emerging economies. Australia remains relatively well –positioned for this scenario. 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.

At a macro level your managers are focused mainly on: 1) positive equity fund flows with cash levels remaining close to record highs, 2) the duration of the recovery phase, encouraged by a positive earnings revision cycle for those companies unaffected by ongoing A\$ strength, 3) the extent to which recovery has been priced in to equities and 3) the risk of fiscal fade in the global economy during the 'handover' phase from stimulus to sustainable broad-based final demand.

Our modestly bullish 65% net equity exposure has resulted from slightly increased holdings in materials stocks that are beneficiaries of global (emerging markets) growth. Your managers have also taken advantage of oversold defensive stocks to increase weightings.

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, unless value is abundantly clear. We have deliberately avoided aggressive shorting in recent times but intend to resume this practice as opportunities arise. 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 cyclical stocks.

Further Fund Information

Returns to 30 Sept 2009					
	PAELSF Net Return ²	PAELSF Gross Return ³	Cash	ASX 300 Accumulation Index	PAELSF Average Net Exposure ⁴
1 Month	3.5%	3.6%	0.2%	6.3%	52.0%
3 Months	18.2%	18.6%	0.7%	21.6%	54.0%
6 Months	30.9%	31.7%	1.5%	35.6%	55.7%
1 Year	4.5%	5.9%	3.7%	8.5%	57.4%
2 Years	-8.2%	-5.6%	11.0%	-20.9%	51.7%
Since Inception ⁵	73.8%	117.0%	34.1%	77.0%	50.7%
Annualised Volatility	13.1%	13.7%	0.3%	15.1%	

² Net Performance, after all fees and charges and assuming reinvestment of distributions. Past Performance is not a reliable indicator of future performance. The value of investments can go up and down.

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

⁴ Exposure is delta adjusted for derivatives and preference shares.

⁵ Inception date: May 2004

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Risk Characteristics	
Annual Volatility	13.1%
Sharpe Ratio	0.59
Downside Deviation	9.56%
Sortino Ratio	0.81
Risk Free Rate Assumed	3.00%

Performance Contributors	
Equity Longs	3.53%
Equity Shorts	0.01%
Derivatives	0.00%
Fixed Interest	0.03%

Portfolio Structure	
Long Positions	36
Short Positions	2
Equity Long Exposure	63.2%
Equity Short Exposure	-1.4%
Net Long Exposure	61.9%

Top 5 Positions (in alphabetical order) 16.9%	
Downer EDI	
Healthscope	
Ramsay Healthcare	
Suncorp- Metway	
Transurban Group	

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