

Pengana Asian Equities Long Short Fund (Onshore) September 2009 Update



Pengana Asian Equities Long Short Fund (Onshore)

The Pengana Asian Equities Long Short Fund (Onshore) (the "Fund") provides investors with equity exposure to companies within the Asia Pacific region. The Fund is managed out of Sydney, Australia. The Fund utilises the core strategy to be both long and short securities, to attempt reduce volatility and to seek stable long term absolute returns.

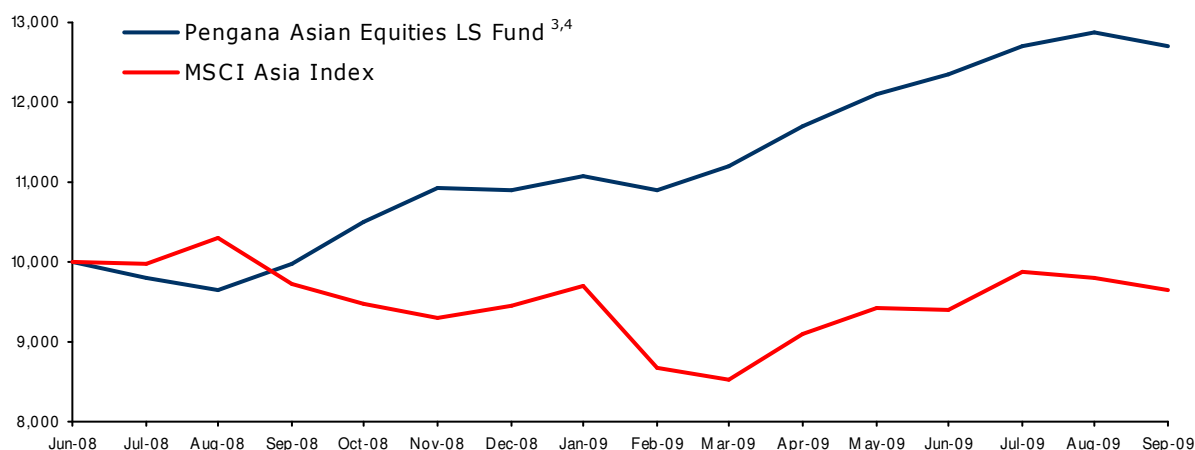
Fund Features

Style	Long/Short Equity	Management Fees ¹ (monthly)	1.54% p.a.
Comparative Benchmark	MSCI AC Asia Index	Performance Fees ¹ (semi-annually)	20.5% of Net Asset Value subject to RBA target cash rate and High Water Mark
Investors	Open	AUM at Month End	A\$2.2m
Minimum Initial Investment	A\$20,000	Application Price at Month End	A\$1.0394
Inception Date	01 July 2008 ^{2,4}	Redemption Price at Month End	A\$1.0342

Fund Commentary

Fund Performance (A\$, %, net of fees) ^{3,4}

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2009	1.4	-1.5	2.7	4.6 ⁴	3.5	2.0	3.0	1.2	-1.3				16.5%
2008							-2.0	-1.5	3.3	5.4	4.1	-0.2	9.1%
MSCI AC Asia Index (A\$, %)													
2009	2.8	-10.5	-1.8	6.6	3.6	-0.3	5.3	-0.9	-1.5%				2.2%
2008							-0.3	3.5	-5.6	-2.8	-1.8	1.6	-5.6%



¹ All percentages include GST net of reduced input tax credits. Please refer to the PDS for a more detailed explanation.

² On 26 August 2009 the Fund became a registered scheme, with a PDS. Identification codes for the Fund are: ARSN: 138 943 709; APIR: PCL 0002AU

³ Net performance, after all fees and charges, and assuming reinvestment of all distributions. Past performance is not a reliable indicator of future performance.

⁴ 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 -1.3%^{3,4} net of fees for September 2009, compared to the -1.5% return by the MSCI Asia Index. Since inception in July 2008, the Fund has returned 21.1% p.a.^{3,4} net of fees, compared to the Index's -2.8% p.a. return. While Asia ex-Japan markets performed strongly through the month with MSCI Asia ex-Japan Index returning 6.6% in local currency terms, Japan produced disappointing results losing over 5%, following the opposition party's landslide victory at the general election last month. Investors were disappointed by the appointments of the new cabinet, and comments by the newly appointed Financial Minister Mr Kamei to allow individuals and SMEs to extend loan repayments had raised concerns of the new government's ability to manage its economy. The strengthening Japanese yen has also pressured its equity market as concerns arose on its export sector, which is just showing signs of recovery from last year's collapsing production with the global financial crisis.

The most striking feature of the month has been the US dollar's accelerating depreciation against the regional currencies, especially against high interest rate currencies such as the Korean won, the Indonesian rupiah and the Australian dollar, which, interesting enough, were also the hardest hit currencies during the global financial crisis last year. The US dollar's weakness has attracted ample liquidity flowing into emerging markets with major emerging markets including Thailand and Taiwan in Asia as well as Russia and Brazil producing nearly double digit returns through the month. This development reveals an interesting contrast to the sentiment late last year when investors rejected risk taking and deserted all equity investment regardless of quality or valuations as if growth would never return. With the Australian dollar approaching its recent high of early 2008 against the US dollar while the global economy is still in the process of recovering from the shock of last year, the risk reward balance for chasing liquidity driven assets such as emerging markets currencies and equities needs to be considered carefully, especially with many central banks in the region including China and South Korea considering exit strategies of the current very loose monetary policies.

Our cautious stance on China at the start of the month limited our participation in the Greater China markets' strong returns this month, and in spite of the strong return from our Australia exposure, the equity portfolio was affected by the weak performance of Japan's financial sector, leading to a -1.1%^{3,4} return. This compared to +0.3% return by the Index in local currency terms. However, currency exposure was well managed, losing -0.6%^{3,4}, compared to nearly -1.7% loss by the Index.

During the month, we reduced some of our exposure in Japan's financial sector, opting to wait for further development of the new government's moratorium on SMEs' loan repayment, but maintained Japan's broader exposure in place. While the Japanese yen has appreciated against the US dollar, it has been relatively stable against other currencies and since early this year, the yen has depreciated against the Korean won and the Euro, two of its major competitors in global trade. On the other hand, the rising Korean won has raised the risk for Korean exporters' competitiveness going forward as Korean electronics and auto companies are directly competing with the Japanese. The previously weakening won against the yen due to the financial crisis had helped Korean companies, especially the electronic component and auto companies, take market share from their Japanese rivals. In addition, as Korean capital goods companies, such as construction machinery companies, are competing with Chinese companies, the strengthening won against the US dollar will likely weaken their competitiveness against China as the Chinese RMB is tightly controlled by its central bank and is only allowed gradual movements against other currencies.

Top Five Performers	Bottom Five Performers
Commonwealth Bk (Aust., long)	Mizuho Financial (Japan, long)
China Yurun Food (China, long)	Orix Corp (Japan, long)
Ramsay Health (Australia, long)	Nippon Electric Glass (Japan, long)
Ascendas REIT (Singapore, long)	Metallurgical Corp China (China, long)
Mitsui Min & Smelt (Japan, short)	ANZ Bank (Australia, short)

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Market Outlook

During the month, we visited China with a group of Japanese investors and researched a broad range of sectors including financials, property, steel and auto related companies. While the trip confirmed the country's sound recovery from last year's global recession, it offered insights into potential changes in its economic policies for the mid-term. In order to cushion the shock from one of the worst global recessions in history, the Chinese government had adopted a stimulus stance to promote growth, injecting substantial liquidity into the system. The policy was effective in stopping the economy from falling into recession as sufficient domestic demand was generated, with government subsidies, to fill surplus capacity, which otherwise would have been hit by falling exports, exposing China to a deflationary spiral. As the global economy recovers, the government is now focusing on addressing the economy's structural issues including the inefficient use of energy and natural resources, pollution, and over-capacity in heavy industries.

One of the major observations of this trip is the great emphasis on pollution reduction and control of capacity expansion. These issues caught so much attention that they occurred at almost every meeting including those with banks, which are careful with their loan exposure to industries restricted by the government. The example of how Chongqing Steel, a mid-sized steel mill with annual capacity of less than two million tonnes, got its approval to expand its capacity and upgrade its facilities underlines the current focus of the central government's economic agenda. In order for Chongqing Steel to upgrade its plants, the Chongqing government had to close twelve other smaller mills in the city so that it could allocate the whole city's steel capacity quota to Chongqing Steel for its upgrade. Different from before, when local governments could use loopholes to protect local interests, this time the local government had to make hard choices, either to allow thirteen small inefficient mills to stay with the risk that none of them will survive, or to pick a winner and put all the resources into the chosen one to help it become efficient and competitive.

It is encouraging to see Beijing's determination to address the over-supply issue as it will lead to a more balanced and efficient economy, which is essential for China's future growth. However, it has also raised the risk for those exposed to capital goods or commodities sectors. Over the next few years, capital investment by Chinese companies will likely be focused on upgrading their facilities to produce higher value-add products with lower material input, rather than the pure capacity expansion of the previous cycle. This shift will lead to slower growth in demand for material and resources but will increase the demand for high-end manufacturing equipment for high-end goods production. While commodity prices currently remain high due to increasing expectations for global growth and the US dollar's weakness, we remain cautious with little exposure in the material and energy sectors but instead focus on companies that will benefit from such shift in economic focus in China. In China, we continue to favour Lenovo as a core holding for its global presence and in Japan, auto parts, machinery companies for auto and semiconductor manufacturing are becoming increasingly interesting for their structural growth prospects and attractive valuations.

Exposure by Sector	Gross	Net	Exposure by Country	Gross	Net
Growth Sectors			HK & China	25%	5%
Energy & Materials	8%	-8%	Taiwan	2%	2%
Ind., Con. Discretionary & Tech	35%	20%	South Korea	3%	1%
Financial & Real Estate	40%	21%	Singapore	3%	3%
Defensive Sectors			EM ASEAN	0%	0%
Con. Staples & Healthcare	3%	1%	Japan	37%	21%
Telecom & Utilities	5%	5%	Australia	21%	9%
Futures	0%	0%	Equities	91%	40%
Total	91%	40%			

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