

# Pengana Australian Equities Long Short Fund

## October 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

<b>Style</b>	Fundamental, GARP	<b>Management Fees <sup>1</sup> (monthly)</b>	1.25% per annum
<b>Benchmark</b>	ASX 300 Accum Index	<b>Performance Fees <sup>1</sup> (semi-annually)</b>	20% per annum with a high water mark
<b>Investors</b>	Wholesale Clients only	<b>AUM at Month End</b>	A\$10.42m
<b>Minimum Initial Investment Amount</b>	A\$100,000	<b>Application Price at Month End</b>	Application: A\$1.0778
<b>Inception Date</b>	May 2004	<b>Redemption Price at Month End</b>	Redemption: A\$1.0745

### 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%	0.6%			<b>36.5%</b>
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%	<b>-32.8%</b>
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%	<b>14.5%</b>
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%	<b>19.0%</b>
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%	<b>15.8%</b>
2004					0.8%	1.1%	5.3%	-0.2%	2.7%	5.9%	2.9%	0.7%	<b>20.8%</b>

The Fund commenced the month of October 62% net long, ending the month 50% net long. After sundry income and all costs and fees, the net return for October 2009 was 0.6%. The average net equity exposure for the month was 62%. The month end mid-unit price was \$1.0762 unit.

The ASX 300 Accumulation Index fell 2.1% in October, selling off 4.5% in the last week of the month. While domestic economic data remained strong, the domestic equity market tracked global markets lower following weaker than expected US housing and consumer data. Offshore earners generally struggled with the strong A\$. Worst performing sectors were Energy, Health Care and Financials. Best sectors were Consumer Staples and Utilities.

#### Key Contributors / Detractors

Best performers in your long portfolio were Lihir Gold (+9%), Peet (+22%) and RCG Corporation (+14%). Long positions in AMP, GrainCorp and Hastie Group detracted from performance. Minor short positions held through the period contributed positively.

<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.

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### Outlook

Developed world central bank official interest rates remain at unprecedented low levels. However, the RBA confirmed the strength in the Australian economy and the need to gradually remove stimulus by raising official rates by 25 bps in both October and November. In the very short term, investors appear to be more focused on the anaemic US consumer recovery and the unwinding of the US\$ carry trade than ongoing strength in Australia and developing nations in the region, particularly China. Macro factors, currency trades and fund flows are dominating the equity market and testing investors' conviction. Notwithstanding a modest and likely fading recovery outlook for the US and European economies, we believe there are sufficient global economic expansion drivers in place.

The consensus fear that markets generally priced in too much earnings recovery in developed economies is largely playing out. 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 structural impediments facing the US consumer, a muted cyclical recovery, growing government and state deficits and the risk of fiscal fade in the global economy during the 'handover' phase from stimulus to sustainable broad-based final demand will continue to lead our market over the medium to longer term. We therefore remain wary of overpaying for both recovery and growth.

Towards the end of October the market became dominated by flows, mainly offshore selling as volatility and the incidence of short-selling picked up sharply with positive fundamental news largely being ignored. After being close to 70% net long intra-month in October we pulled back to net exposure to around 45% with a view to rebuilding positions into current weakness, including where heavy capital raisings have weighed on share prices.

Thematically your managers are looking to shift exposure away from domestic consumer cyclicals to growth at a reasonable price and beneficiaries of global (emerging markets) growth in particular. We continue to have conviction in the ongoing strength of China but remain cautious on timing given recent indiscriminate selling. As we write we have selectively increased net equity exposure to 56%.

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, growth or defensive.

### Further Fund Information

Returns to 31 October 2009					
	PAELSF Net Return <sup>2</sup>	PAELSF Gross Return <sup>3</sup>	Cash	ASX 300 Accumulation Index	PAELSF Average Net Exposure <sup>4</sup>
1 Month	0.6%	0.7%	0.3%	-2.1%	62.0%
3 Months	9.6%	10.0%	0.8%	11.0%	56.3%
6 Months	26.1%	26.9%	1.5%	25.6%	56.5%
1 Year	21.5%	23.1%	3.5%	22.0%	57.8%
2 Years	-9.2%	-7.0%	10.7%	-24.8%	52.2%
Since Inception <sup>5</sup>	74.9%	118.6%	34.5%	73.4%	50.9%
Annualised Volatility	13.0%	13.6%	0.3%	15.0%	

<sup>2</sup> 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.

<sup>3</sup> Gross Performance excludes both management and performance fees and assumes reinvestment of distributions.

<sup>4</sup> Exposure is delta adjusted for derivatives and preference shares.

<sup>5</sup> Inception date: May 2004

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Risk Characteristics	
Annual Volatility	13.0%
Sharpe Ratio	0.56
Downside Deviation	9.51%
Sortino Ratio	0.77
Risk Free Rate Assumed	3.25%

Performance Contributors	
Equity Longs	0.6%
Equity Shorts	0.1%
Derivatives	0.0%
Fixed Interest	0.0%

Portfolio Structure	
Long Positions	32
Short Positions	0
Equity Long Exposure	49.5%
Equity Short Exposure	0.0%
Net Long Exposure	49.5%

Top 5 Positions (in alphabetical order)	13.5%
Graincorp	
Hastie Group	
Lihir Gold	
Ramsay Health Care	
Westpac Banking Group	

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