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

Pengana Asian Equities Long Short Fund (Onshore)

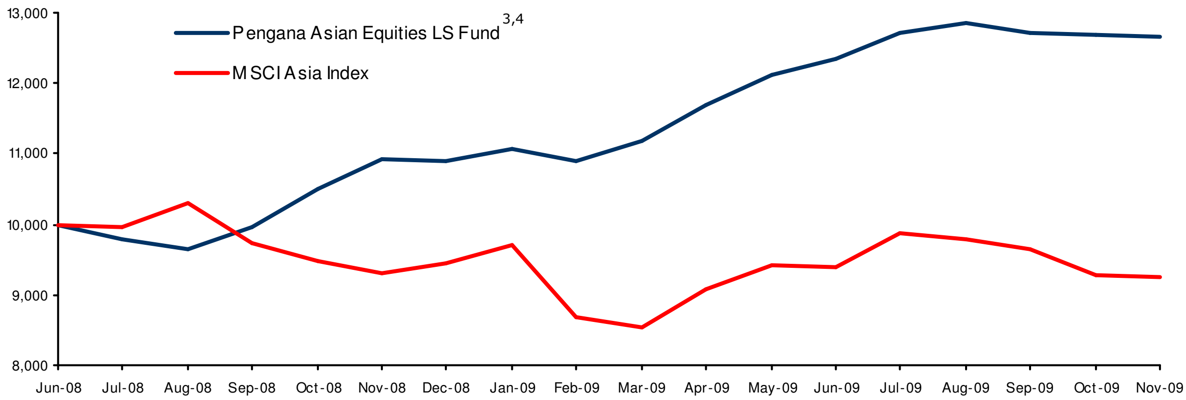
The Pengana Asian Equities Long Short Fund (Onshore) (the "Fund") provides investors with equity exposure to companies within the Asia Pacific region. The Fund is managed out of Sydney, Australia. The Fund utilises a core strategy of being both long and short securities in order to reduce volatility and generate 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 any increase in Net Asset Value subject to RBA target cash rate hurdle
Investors	Open	**AUM at Month End**	A$3.6m
Minimum Initial Investment	A$20,000	**Application Price at Month End**	A$1.0366
Inception Date	01 July 2008 [2,4]	**Redemption Price at Month End**	A$1.0314

Fund Commentary

Fund Performance (A$, %, net of fees) [3,4]													
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	**YTD**
2009	1.4	-1.5	2.7	4.6 [4]	3.5	2.0	3.0	1.2	-1.3	-0.2	-0.1		**16.1%**
2008							-2.0	-1.5	3.3	5.4	4.1	-0.2	**9.1%**
MSCI AC Asia Index (A$, %)													
2009	2.8	-10.5	-1.8	6.6	3.6	-0.3	5.3	-0.9	-1.5%	-3.8	-0.5		**-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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	Fund Features since Inception	Index Features since Inception
Annualised Return	18.2%	-5.4%
Annualised Volatility	8.1%	14.5%
Sharpe Ratio [5]	1.6	-0.7
Maximum Drawdown [6]	-3.5%	-17.3%
Max. Recovery Period	2 months	8 months + [7]
Best Monthly Return	5.4%	6.6%
Worst Monthly Return	-2.0%	-10.5%
% of Up Months	59%	35%
Correlation to Index	0.24	

The Fund returned -0.1%[3] net of fees for November 2009, compared to the -0.5% return of the MSCI Asia Index. Since inception in July 2008, the Fund has returned 18.2% p.a.[3,4] net of fees, compared to the Index's -5.4% p.a. return.

November started with starkly contrasting performances from Japanese equities and Asian ex-Japan equities, with Japan's Topix Index falling sharply on concerns about large capital raisings by the country's three mega banks. The banks are anticipated to require fresh capital of at least Y1,000 billion (A$ 12.5 billion) each to comply with stricter capital standards. In addition, the strengthening of the Japanese Yen against the US Dollar dampened investor confidence about Japan's recovery, given its heavy dependence on exports. Intra-month, the Yen appreciated by over 5% against the US Dollar, touching 85 Y/USD, its highest level since 1995.

In Asia ex-Japan, enthusiasm about China's prospects initially drove equity markets to a year high, but this was followed by a sharp correction fuelled by concerns on capital raisings by Chinese banks, as well as the Dubai crisis towards the end of the month. Nevertheless, while the MSCI Japan Index lost nearly 6% for the month, the Asia ex-Japan Index closed the month with a positive 2% return (both in local currency terms). Japan's underperformance was even more striking when compared to other developed markets, with the US S&P 500 Index returning close to 6%. The Fund's equity portfolio performance was affected by its earlier position favouring Japan, returning -0.8% compared to -2% by the MSCI Asia Index. However, the strong Yen offset most of the weak equity return, allowing the Fund to reach a flat return for the month.

With large capital raisings underway from both financial and non-financial companies in Japan, the risk of further strengthening of the Yen has increased as rising domestic demand for capital is adding upward pressure on the currency. The strong Yen and the liquidity demand-supply imbalance is likely to continue depressing Japan's equity market performance in the very short term and to hedge such risks, the Fund implemented short positions in both financials and export-orientated companies, including MUFG, Japan's largest financial group, whose Y1,000 billion capital raising will cause nearly 20% dilution, and Komatsu, whose competitiveness is weakened by the strong Yen as it directly competes with US and European companies.

[5] Using 5% risk-free rate for Sharpe ratio
[6] The worst period of 'peak to valley' performance, regardless of whether or not the drawdown consisted of consecutive months of negative performance
[7] Not yet returned to prior peak level

In Asia ex-Japan, the focus was on China's new five-year economic development plan, with the country's top decision-makers gathering for the annual economic conference in December. The Fund used the sharp correction triggered by the debt default concerns around Dubai World to raise some exposure in consumption-related companies, including New World Department Stores, one of China's major nationwide department store chains.

Top Five Performers	Bottom Five Performers
Olympus Corp (Japan, short)	Exedy Corp (Japan, long)
Mitsubishi Electric (Japan, short)	Daiichi Chuo Kisen (Japan, long)
Lenovo Group (China, long)	Tokyo Tatemono (Japan, long)
GCL Energy Hldgs (China, long)	Asahi Kasei Corp (Japan, long)
New World Dept Store (China, long)	Toyoda Gosei (Japan, long)

Market Outlook

The recent events in Dubai, where flagship investment company Dubai World announced a delay of its debt repayments and started a debt restructuring exercise, not only reminds investors of emerging market risk, it has also raised the fundamental issue that banks worldwide are very likely to become more reluctant to extend credits as they become more risk averse. While the world economy is on track to recover from last year's recession, we believe one crucial element for a sustainable recovery, particularly in developed countries such as the US, is a revival of bank lending. However, most recent US data and surveys have shown that credit growth continued its slide and that banks are further tightening their lending standards. This has highlighted that the current loose monetary policies from central banks, of holding interest rates at ultra-low levels, may have failed to fundamentally stimulate credit demand. Banks, as a result, are forced to put their capital in government bonds to earn an interest spread. This is a phenomenon experienced by Japan since its asset bubble burst in the early 1990s. Despite historically low level of capital costs, companies and households had little appetite for credit and continued to save in order to repair balance sheets damaged by the asset bubble in the 1980s. The prolonged low interest rate environment, on the other hand, weakened the Japanese banks' ability to generate profits and enlarge their capital to absorb financial shocks. Until banks start to lend and credit demand starts to grow again in the US, there remains a risk that the current economic recovery will be short-lived.

The divergence between Japan's equity market and those in Asia ex-Japan has reached new extremes of late. Year-to-date, the MSCI Japan Index returned -2.2%, while the MSCI Asia ex-Japan Index has returned close to 26% (both in local currency terms). Japan continues to remain substantially oversold, both technically and fundamentally, with valuations not seen since 2003 and many companies, and the banking sector overall, trading at 20-year lows. A lack of growth and the absence of clear turn-around catalysts have kept investors sidelined. In contrast, strong growth prospects in Asia, especially China, continue to attract inflows from foreign investors. This has happened despite rich valuations, with many Chinese companies even trading at levels exceeding those of 2007. While such divergence could persist in the short term, it will eventually narrow. A trigger for such convergence may emerge in the first quarter of 2010, when Japan's three mega banks MUFG, SMFG and Mizuho finalise their capital raising programmes. With its currency stabilising, the Japanese equity market is likely to perform in line with a recovery of corporate earnings. We expect corporate earnings to grow by 20% in fiscal 2010, with the manufacturing sector taking the lead.

In Asia ex-Japan, we continue to remain selective and look for opportunities to accumulate companies in the technology, healthcare and consumption-related sectors, avoiding materials and heavy industries, particularly in China. China's future growth is likely to be driven by industries such as electronics, auto, and consumption, rather than heavy industries, as the economy continues to move away from a fixed asset investment focus to a more balanced and consumption driven model. Lenovo continues to be our core holding.

Exposure by Sector	Gross	Net	Exposure by Country	Gross	Net
Growth Sectors			HK & China	8%	5%
Energy & Materials	5%	1%	Taiwan	0%	0%
Ind., Con. Discretionary & Tech	33%	10%	South Korea	0%	0%
Financial & Real Estate	20%	2%	Singapore	8%	2%
Defensive Sectors			EM ASEAN	0%	0%
Con. Staples & Healthcare	11%	2%	Japan	35%	5%
Telecom & Utilities	0%	0%	Australia	20%	4%
Futures	0%	0%	**Equities**	**70%**	**15%**
Total	**70%**	**15%**			

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