

Pengana Australian Equities Long Short Fund

November 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% of the increase in the NAV with a high water mark
Investors	Wholesale Clients only	AUM at Month End	A\$10.47m
Minimum Initial Investment Amount	A\$100,000	Application Price at Month End	Application: A\$1.0837
Inception Date	May 2004	Redemption Price at Month End	Redemption: A\$1.0804

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%	0.5%		37.3%
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 November 50% net long, ending the month 68% net long. After sundry income and all costs and fees, the net return for November 2009 was 0.54%. The average net equity exposure for the month was 60%. The month end mid-unit price was \$1.0820 per unit.

The ASX 300 Accumulation Index increased 1.8% in November, in a volatile month in which the equity market ultimately shrugged off a potential default by Dubai World. Gold and gold stocks rallied hard in November. Offshore earners generally continued to struggle with the strong A\$, supported by another 25bp rate hike. Best sectors were Materials and Telcos. Worst performing sectors were Financials, Industrials, IT and Utilities.

Key Contributors / Detractors

Best performers in your long portfolio were Lihir Gold (+18%), Newcrest (+14%), Boart Longyear (+13%) and Panaust (+11%). Long positions in Elders, GrainCorp, Infigen Energy, Hastie Group and Westpac detracted from performance. No short positions were held during the month.

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

The RBA confirmed the strength in the Australian economy and the need to gradually remove stimulus by raising official rates by 25 bps on three consecutive occasions. In the very short term, helped by better than expected US unemployment data, investors appear to be preoccupied with unwinding currency carry trades, neutralising macro calls and year-end portfolio de-risking, in an increasingly thin equity market. However, with genuine economic strength in Australia and strong demand from the Asian / Chinese region, our view remains that sufficient global economic expansion drivers are in place for further equity market gains in H1 2010.

The global economy is in a recovery phase with China and other Asian economies leading the recovery and mature markets lagging. Australia remains relatively well-positioned on macro themes. Globally, the cyclical upturn is being driven primarily by a very large inventory rebuild from extremely depleted levels. The US, EU and Japan are the major swing factors. However, we believe that structural impediments facing the US consumer continue to pose the greatest risk for a muted recovery over the medium to longer term. We therefore remain wary of overpaying for cyclical recovery.

We continue to have conviction on sales exposure to the ongoing strength of China. We continue to position the portfolio for the positive themes of 2010, including an increased focus on stocks with earnings upgrade risk (margin expansion) and sustainable growth. An improving earnings outlook and a further compression in valuation dispersion should encourage investors to tilt towards stocks that offer growth at a reasonable price. Thematically your managers are looking to gradually shift exposure away from domestic consumer cyclicals as interest rates rise. As we write we have slightly lifted net exposure at 70%, with a bias towards global cyclicals and a willingness to add to positions as many stocks have come back to fair - or below fair value.

We remain pleased with your fund's risk-adjusted performance outcomes this year. We have let ourselves down in a few stock specific situations eg. Graincorp but we have never taken big bets at the stock or sector level. 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 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 30 November 2009					
	PAELSF Net Return ²	PAELSF Gross Return ³	Cash	ASX 300 Accumulation Index	PAELSF Average Net Exposure ⁴
1 Month	0.5%	0.7%	0.3%	1.8%	60.0%
3 Months	4.7%	5.0%	0.8%	5.9%	58.0%
6 Months	25.1%	25.9%	1.6%	26.1%	57.3%
1 Year	35.9%	37.7%	3.3%	32.5%	57.6%
2 Years	-7.9%	-5.5%	10.4%	-21.1%	53.5%
Since Inception ⁵	75.8%	120.0%	34.9%	76.5%	51.0%
Annualised Volatility	12.9%	13.5%	0.3%	14.9%	

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	12.9%
Sharpe Ratio	0.55
Downside Deviation	9.47%
Sortino Ratio	0.75
Risk Free Rate Assumed	3.50%

Performance Contributors	
Equity Longs	0.65%
Equity Shorts	0.0%
Derivatives	0.0%
Fixed Interest	0.0%

Portfolio Structure	
Long Positions	32
Short Positions	0
Equity Long Exposure	67.7%
Equity Short Exposure	0.0%
Net Long Exposure	67.7%

Top 5 Positions (in alphabetical order)	17.1%
BHP Billiton	
Graincorp	
Hastie Group	
Myer Holdings	
Ramsay Healthcare	

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