

Pengana Australian Equities Long Short Fund

December 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\$10.72m
Minimum Initial Investment Amount	A\$100,000	Application Price at Month End	Application: A\$1.1101
Inception Date	May 2004	Redemption Price at Month End	Redemption: A\$1.1067

Fund Commentary

Fund Performance (A\$, net of fees and assuming reinvestment of distributions) ²

	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%	2.4%	40.6%
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 December 68% net long, ending the month 60% net long. After sundry income and all costs and fees, the net return for December 2009 was 2.4%². The average net equity exposure for the month was 68%. The month end mid-unit price was \$1.1081 per unit.

The ASX 300 Accumulation Index increased 3.69% in December.

Key Contributors / Detractors

All sectors provided a positive finish in December. Leading the way were cyclical industrial stocks amid further signs of economic recovery, with Industrials (+7%) and Telcos the laggard (+1%). Discretionary retailers were particularly weak based on pre-Christmas sales feedback. Best performers in your long portfolio were Boart Longyear (+13%), Downer EDI (+10%), Hastie Group (+8%), News Corporation (+18%) and Panaust (+8%). Gold exposures 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 global economy continues to build a recovery phase with China and other Asian economies leading the way and mature markets lagging. Australia remains relatively well-positioned on macro themes. Globally, the cyclical upturn has been driven primarily by a very large inventory rebuild. The US, EU and Japan are the major swing factors, with structural impediments facing the US consumer posing the greatest risk for a muted recovery over the medium to longer term.

Despite around 40% gains in calendar 2009 the ASX 200 Index remains 29% below its Nov 2007 peak. Valuations have moved a long way since the beginning of 2009 but with FY2011 PER multiples in the 13x to 14x range, the major stocks are not yet overly demanding. Our view remains that sufficient global economic expansion drivers are in place for further equity market gains in H1 2010. However, we are likely moving out of a phase in equity markets when an aggressive pro-cyclical strategy tends to work best for returns. Future equity market returns will increasingly depend on earnings growth.

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.

As we write we have reduced net exposure to around 60% and marginally reduced an overweight exposure to resources.

In calendar 2009 the fund outperformed the broader market with an average net equity exposure of around 58%, which is pleasing. We 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 31 December 2009

	PAELSF Net Return ²	PAELSF Gross Return ³	Cash	ASX 300 Accumulation Index	PAELSF Average Net Exposure ⁴
1 Month	2.4%	2.5%	0.3%	3.7%	68.0%
3 Months	3.6%	3.9%	0.9%	3.4%	63.3%
6 Months	22.4%	23.2%	1.6%	25.7%	58.7%
1 Year	40.6%	42.4%	3.3%	37.6%	57.8%
2 Years	-5.6%	-3.0%	10.1%	-16.0%	55.2%
Since Inception ⁵	80.1%	125.5%	35.3%	83.0%	51.2%
Annualised Volatility	12.8%	13.4%	0.3%	11.3%	

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	12.8%
Sharpe Ratio	0.56
Downside Deviation	9.42%
Sortino Ratio	0.76
Risk Free Rate Assumed	3.75%

Performance Contributors	
Equity Longs	2.5%
Equity Shorts	0.0%
Derivatives	0.0%
Fixed Interest	0.0%

Portfolio Structure	
Long Positions	28
Short Positions	0
Equity Long Exposure	60.0%
Equity Short Exposure	0.0%
Net Long Exposure	60.0%

Top 5 Positions (in alphabetical order)	17.2%
BHP Billiton	
Downer EDI	
Hastie Group	
National Australia Bank	
Sedgman	

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