

Pengana Asian Equities Fund (Onshore) December 2009 Update



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Pengana Asian Equities Fund (Onshore)

The Pengana Asian Equities 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.

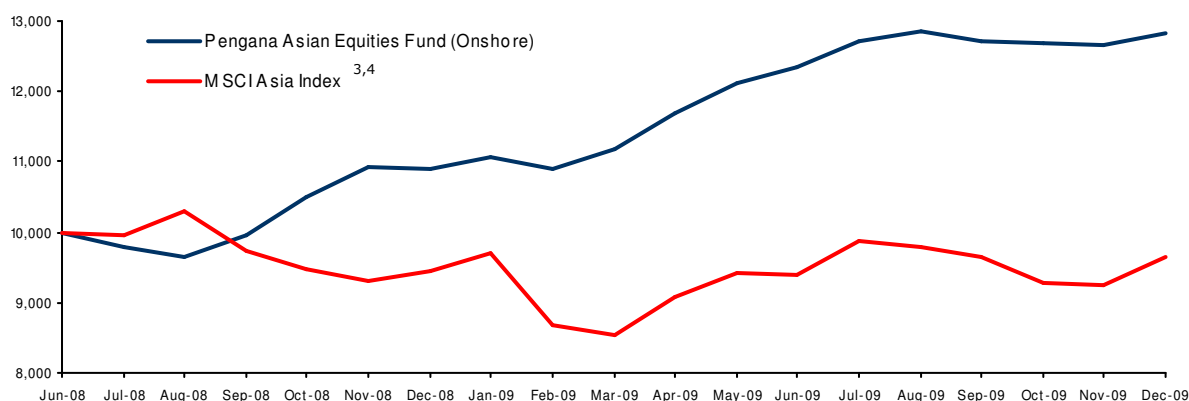
Fund Features

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\$3.8m
Minimum Initial Investment	A\$20,000	Application Price at Month End	A\$1.0504
Inception Date	01 July 2008 ^{2,4}	Redemption Price at Month End	A\$1.0452

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	1.3	17.7%
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	4.4	2.1%
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	18.1%	-2.4%
Annualised Volatility	7.9%	14.6%
Sharpe Ratio ⁵	1.7	-0.5
Maximum Drawdown ⁶	-3.5%	-17.3%
Max. Recovery Period	2 months	9 months + ⁷
Best Monthly Return	5.4%	6.6%
Worst Monthly Return	-2.0%	-10.5%
% of Up Months	61%	39%
Correlation to Index	0.23	

The Fund returned 1.3%³ net of fees for December 2009, compared to the 4.4% return of the MSCI Asia Index. Since inception in July 2008, the Fund has returned 18.1% p.a.^{3,4} net of fees, compared to the Index's -2.4% p.a. return.

December saw a complete reversal from the previous month in terms of the performance of the individual Asian markets, with Japan as the best performer, returning 8.9%, and the MSCI China Index lagging substantially, returning only 0.5% for the month (both in local currency terms). Japan's rally was triggered by comments from government officials expressing concern about the sharp appreciation of the Yen, which in November jumped to its highest level since 1995, touching 85 Yen to the US Dollar. The government comments sent the Yen falling against most major currencies, setting off an export sector-led rally in the equity market.

In China meanwhile, the government concluded its annual economic conference by addressing concerns about rising property prices and by outlining a policy shift from last year's promotion of rapid growth to a focus on steady growth for 2010. This triggered a sell-off in the property sector, while concerns about capital raising by banks also capped the performance of that sector.

The Fund benefited from its high exposure in Japan, with the most significant contributions coming from its investments in auto and tech companies, such as Fuji Heavy, a mid-sized auto company marketed under the Subaru brand, and Elpida, Japan's largest DRAM manufacturer. However, the Fund's low exposure in cyclical markets such as South Korea and Taiwan, both of which also performed strongly during the month on rising enthusiasm about the US economic recovery, limited its participation in the year-end rally.

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

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Top Five Performers	Bottom Five Performers
Fuji Heavy Ind. [Subaru] (Japan, long)	Culture Conv. Club (Japan, long)
Lenovo (China, long)	Tosoh (Japan, short)
Exedy (Japan, long)	Komatsu (Japan, short)
Mitsui Chemical (Japan, long)	SMFG (Japan, short)
Elpida Memory (Japan, long)	Olympus Corp (Japan, short)

Market Outlook

While 2009 saw a remarkable turnaround for global and in particular regional Asian economies, it was striking that Japan, one of the economies most sensitive to global growth, produced such a disappointing equity performance. The MSCI Japan Index returned only 9.1% for the year, compared to a 66%+ return by the MSCI Asia ex-Japan Index. Over the 2007 to 2009 period, Japan returned -17% p.a., compared to a 6.2% p.a. return for MSCI Asia ex-Japan Index (all above in local currency terms). As such a divergence in performance within the region is rare, it raises the question whether this loss of confidence in Japan is deserved.

During the month, we visited Japan to investigate whether there is indeed a solution for the country's seemingly unsolvable problems of an aging society and the continuously stagnant domestic demand. The research centred on the Kansai region (Western Japan), the heartland of Japan's electronic industry and the home of Sharp, Panasonic, as well as some of Japan's most competitive electronic component companies, such as Murata and Kyocera. Discussions with local residents revealed the impact of the strong Yen, which pushed many companies to cut costs, including labour cost, to remain competitive. The swift and flexible cost management recently adopted by Japanese companies has put further pressure on household income and substantially weakened domestic consumption, more so than in previous economic down-cycles. Consequently, many Japanese feel they were worse off in 2009 than in 2008. However, with the country's domestic demand becoming even more sensitive to economic cycles, further recovery in global growth is also likely to lead a recovery of Japan's export industry and ultimately lead to an improvement in domestic labour demand. Many companies, in particular electronics manufacturers, are now running close to full capacity, and any further improvement in demand will lead to the recruitment of additional labour within a short time.

The structural problem of the subduing impact of an aging population on domestic demand will however take time to solve, even with the current government's efforts to promote childbirth. However, there is a short-term solution for Japan. A weaker Yen could help its exporters to regain global competitiveness, leading to higher labour demand. After all, the export sector is one of the largest employers in the country. The recent comments by the newly appointed Finance Minister, favouring a weaker Yen, signal such recognition and could be a catalyst for Japan to catch up in terms of equity performance in 2010.

Longer term, there is some encouragement to be gained from the fact that the Japanese population is now clearly aware of the implications of an aging population and has a strong desire to respond to this challenge. There is a recognition that the economic policies of the last two decades have failed to bring the country out of deflation because they were too focused on the supply side. A new set of policies to instead focus on stimulating demand, through, for example, childcare subsidies and social welfare reform, is gathering public support. While uncertainties remain about how the new government will manage the economy, the fact that this government does not have the burden of old interests to protect will allow it to force through more drastic and long-required changes. The new government budget for FY2010 is likely to be the first step in that process.

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As the global economic recovery is gathering pace and China and some other developing countries are preparing to exit from their currently very accommodative economic policies, Japan is moving in the opposite direction by launching stimulus policies, with higher fiscal spending and in all likelihood a looser monetary policy. Japan could see a much improved liquidity environment this year, which should support its ability to outperform among regional markets for 2010.

Exposure by Sector	Gross	Net	Exposure by Country	Gross	Net
Growth Sectors			HK & China	11%	7%
Energy & Materials	3%	-3%	Taiwan	1%	1%
Ind., Con. Discretionary & Tech	33%	19%	South Korea	0%	0%
Financial & Real Estate	19%	16%	Singapore	6%	1%
Defensive Sectors			EM ASEAN	0%	0%
Con. Staples & Healthcare	7%	3%	Japan	38%	23%
Telecom & Utilities	1%	1%	Australia	8%	4%
Futures	0%	0%	Equities	64%	36%
Total	64%	36%			

Contact Details

Pengana Capital Limited • Level 29, 20 Bond Street, Sydney, NSW 2000, Australia
 T +61 2 8524 9900 • F +61 2 8524 9901 • ABN 30 103 800 568, AFSL 226566

For further information, please visit our website at www.pengana.com or contact:

Institutional Clients: Denis Carroll, +61 2 8524 9974, denis.carroll@pengana.com

Private Clients: Juliet Dunworth, +61 2 8524 9984, juliet.dunworth@pengana.com

Advisors: Justin Brooks, +61 3 8663 7906, justin.brooks@pengana.com

Asia-based Clients: Douglas Isles, +65 6593 6023, douglas.isles@pengana.com