

Pengana Australian Equities Long Short Fund

February 2010 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\$6.8m
Minimum Initial Investment Amount	A\$100,000	Application Price at Month End	Application: A\$1.0769
Inception Date	May 2004	Redemption Price at Month End	Redemption: A\$1.0736

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
2010	-3.3%	0.3%											-3.0%
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 February 57% net long, ending the month 3% net long. After sundry income and all costs and fees, the net return for February 2010 was 0.32%². The average net equity exposure for the month was around 20%. The month end mid-unit price was \$1.0753 per unit. The ASX 300 Accumulation Index increased 2.04% in February.

Key Contributors / Detractors in February

While the company reporting season generally surprised on the upside, gains were tempered by ongoing global macro concerns regarding sovereign debt, particularly in relation to Greece and mixed recovery signals in the US. Macro concerns resulted in a resurgence of defensives; led by Consumer Staples (+6%) and Healthcare (+4%). Financials were mixed. Falls in bad debts and better interest margins supported Westpac (+10%) and ANZ (+7%), while NAB's trading update disappointed (-4%). Telstra fell 11% in the month, following a disappointing result and the ongoing threat of structural change.

Your Managers substantially de-risked the portfolio through the month, following the decision to wind up the Fund and return all remaining funds to investors.

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 leading and mature markets lagging, amid post-GFC sovereign related after-shocks and rising public debt levels. Australia remains relatively well-positioned on macro themes. However, equity markets remain unsettled over the potential of these issues to derail a global recovery.

Our view remains that sufficient global economic expansion drivers are in place for further equity market gains in 2010. Future equity market returns will increasingly depend on earnings growth but if macro credit factors continue to be so uncertain, PE ratios are likely to stay under pressure as investors demand a higher equity risk premium. However, we believe that the macro risks present should be acknowledged both in portfolio construction and net equity exposure, until there are signs of resolution.

During the month your Managers made the decision to close the Fund after nearly six years of operation. The Fund was de-risked through February and is now 100% in cash. The final liquidation will have no negative impact on the NAV of the Fund. In addition, the unit holders of the Fund will bear no closure costs for the Fund, which will be borne by Pengana Capital.

We would like to thank all our investors and service-providers over the years who made it all possible for us to manage the Fund.

Further Fund Information

Returns to 28 February 2010					
	PAELSF Net Return ²	PAELSF Gross Return ³	Cash	ASX 300 Accumulation Index	PAELSF Average Net Exposure ⁴
1 Month	0.3%	0.4%	0.3%	2.0%	20.0%
3 Months	-0.6%	-0.3%	0.9%	-0.7%	62.0%
6 Months	4.0%	4.7%	1.7%	5.2%	60.0%
1 Year	41.6%	43.4%	3.3%	45.0%	58.1%
2 Years	-1.2%	1.5%	9.6%	-9.0%	56.9%
Since Inception ⁵	74.8%	119.4%	36.1%	75.2%	51.5%
Annualised Volatility	12.8%	13.3%	0.3%	14.9%	

Risk Characteristics	
Annual Volatility	12.8%
Sharpe Ratio	0.49
Downside Deviation	9.29%
Sortino Ratio	0.68
Risk Free Rate Assumed	3.75%

Portfolio Structure	
Long Positions	2
Short Positions	0
Equity Long Exposure	3%
Equity Short Exposure	0%
Net Long Exposure	3%

Performance Contributors	
Equity Longs	0.4%
Equity Shorts	0.0%
Derivatives	0.0%
Fixed Interest	0.0%

Top 5 Positions (in alphabetical order) 17.8 %	
Amcor	
BHP Billiton	
Hastie Group	
Peet	
Sedgman	

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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