

# Pengana Global Volatility Fund

## March 2010 Update (Australian Feeder Fund)



### Fund Description

The Pengana Global Volatility Fund seeks to provide investors with a non directional actively traded derivative strategy focused on volatility. The Fund trades in North American equity index futures, options and other volatility-based instruments and derives returns from mispricing of these instruments due to changes in volatility. The strategy began trading in November 2007<sup>2,3</sup> and is managed by a highly experienced team led by Alvin Wilkinson.

### Fund Features

<b>Style</b>	Non-directional global volatility	<b>Management Fees<sup>1</sup> (monthly)</b>	Class A: 2.0% p.a. Class B: 0.5% p.a.
<b>Investors</b>	Wholesale Investors only	<b>Performance Fees<sup>1</sup> (quarterly)</b>	Class A: 20% Class B: 30%
<b>Minimum Initial Investment Amount</b>	A\$100,000	<b>Trustee Fee<sup>1</sup></b>	0.2% per annum of the net asset value of the Fund
<b>Inception Date</b>	November 2007 <sup>2, 3</sup>	<b>FUM at Month End</b>	A\$81m

### Fund and Market Commentary

Fund Performance (Class A Units, in A\$, net of fees) <sup>2,3,4</sup>													
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2010	2.3%	-0.4%	-1.6%										<b>0.3%</b>
2009	0.7%	0.4%	1.1%	1.0%	1.2%	1.7%	1.3%	0.7%	0.3%	0.9%	1.9%	1.0%	<b>12.8%</b>
2008	3.5%	2.6%	1.1%	1.2%	2.1%	5.8%	1.8%	1.1%	-38.3%	-17.1%	68.2%	0.3%	<b>4.3%</b>
2007											1.6%	1.3%	<b>2.8%</b>

Fund Performance (Class B Units, in A\$, net of fees) <sup>2,3,4</sup>													
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2010	2.2%	-0.3%	-1.4%										<b>0.4%</b>
2009	0.7%	0.4%	1.1%	1.1%	1.0%	1.4%	1.3%	0.9%	0.3%	0.9%	1.7%	0.9%	<b>12.2%</b>
2008	3.5%	3.4%	0.7%	1.1%	1.9%	5.2%	1.7%	1.0%	-37.5%	-16.7%	66.7%	0.4%	<b>4.6%</b>

The Performance for the A\$ Class A shares in March 2010 was -1.6%.<sup>3,4</sup> The annualised return for the Class A shares since inception in November 2007 is 8.3%.<sup>2,3,4</sup>

The protracted period of low realised volatility, accompanied by a skeptic-confounding rally (5.9%) in the underlying equity market (S&P 500) was achieved with no significant news events or government reports to support a market level that hasn't been reached since 30 September 2008. This proved to be a challenge for the Fund's performance during March.

March experienced a continued methodical and steady rise in the S&P 500 as it started the month at a level of 1104; rising to 1174 on 23 March, and then ended the month at 1169. The VIX (Volatility Index) started the month at 19.3, then gradually moved down to the month's low of 16.3 on 23 March. This was the lowest level of the VIX since May of 2008. The VIX came off its low and ended the month at 17.6.

Volume in the S&P 500 options market was slightly higher than the two year average.

The rally in the S&P 500 had the effect of collapsing the implied volatility of out of the money upside calls, narrowing the expectation of extreme events in the short term and in turn increased the ratio of put/call skew across some of the front month maturities.

Please see Appendix 1\* for a graphical representation of the increase of the ratio of some of the front month put/call skews. E.g. Chart 1 shows the relative realised volatility between 30 day 110% call and 30 day 90% put (realised 30 day 90% put vol > realised 30 day 110% call vol).

<sup>1</sup> All percentages are on a GST exclusive basis net of applicable reduced input tax credits. Please refer to the Information Memorandum for a more detailed explanation.  
<sup>2</sup> The Fund began trading in May 2008. Performance for the period prior to May 2008 is the performance of all underlying assets managed in the Pengana Global Volatility Strategy. Performance from May 2008 is for the money managed in the Fund itself.  
<sup>3</sup> Inception Dates: Class A Units - 07 November 2007, Class B Units - 31 December 2007  
<sup>4</sup> Total return performance figures are derived from the Manager's records and are shown after management fees and performance fees, and assume reinvestment of distributions. Investments can go up and down. Past performance is not a reliable indicator of future performance.  
 \*Please note the appendix is best viewed on your monitor.

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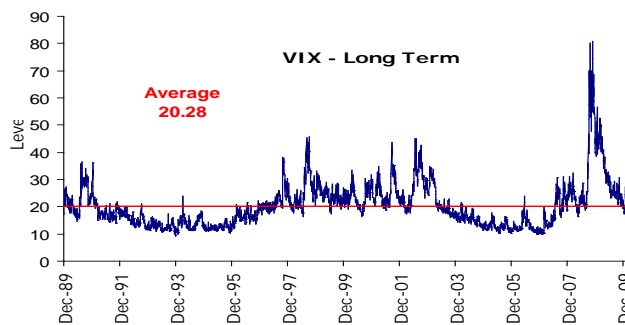


This was a difficult environment in which to be long gap risk with front month options, long protection via options at the wider ends of the strike distribution and short modestly downside 3-month puts.

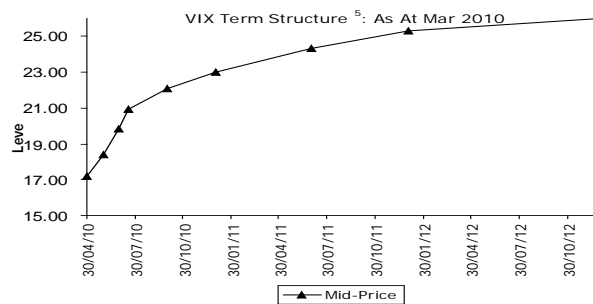
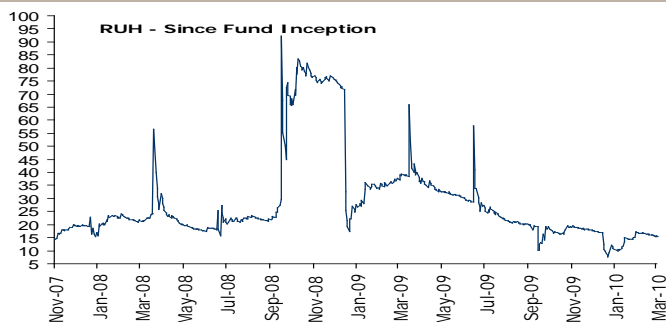
So, considering the cost of downside protection we maintained during the month against any catastrophic market event, the Fund's performance in March was generally within expectations given the benign volatility environment. We are confident with our current positioning of the Fund going forward.

Net Returns to 31 March 2010 <sup>2,3,4</sup>	Class A Units	Class B Units
3 months	0.3%	0.4%
6 months	4.1%	3.9%
1 year	10.8%	10.1%
<b>Annualised since inception</b>	<b>8.3% p.a.</b>	<b>7.6% p.a.</b>

### CBOE Volatility Index (VIX)



### CBOE Realised Volatility (RUH) and Term Structure <sup>5</sup>



### 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](http://www.pengana.com) or contact:

- Institutional Clients:** Denis Carroll, +61 2 8524 9974, [denis.carroll@pengana.com](mailto:denis.carroll@pengana.com)  
 Simon Poidevin, +61 2 8524 9904, [simon.poidevin@pengana.com](mailto:simon.poidevin@pengana.com)  
 Kevin Wan Lum, +61 400 840 688, [kevin.wan.lum@pengana.com](mailto:kevin.wan.lum@pengana.com)
- Private Clients:** Juliet Dunworth, +61 2 8524 9984, [juliet.dunworth@pengana.com](mailto:juliet.dunworth@pengana.com)
- Advisors:** Justin Brooks, +61 3 8663 7906, [justin.brooks@pengana.com](mailto:justin.brooks@pengana.com)

<sup>5</sup> Term Structure describes the level of implied volatility for options in different expiry dates.

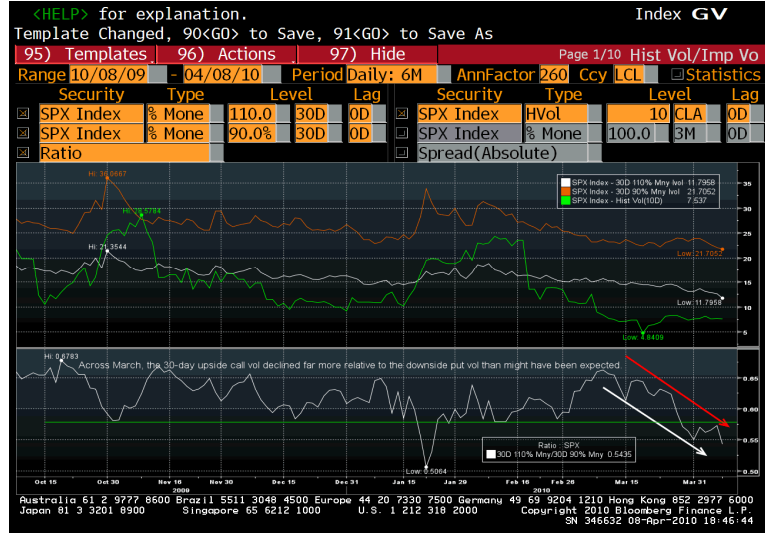
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APPENDIX 1

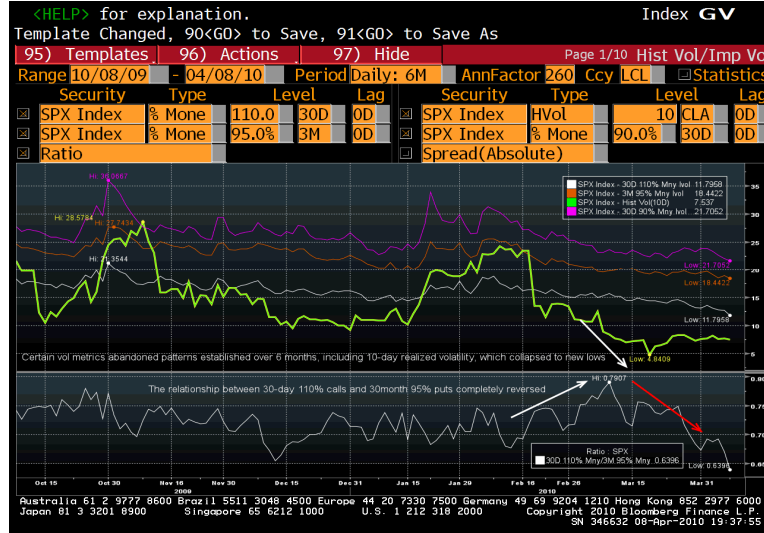
PENGANA GLOBAL VOLATILITY FUND  
PGVF



SPX 30-day 90% Put Vol vs 110% Call Vol and 10-day realized Vol



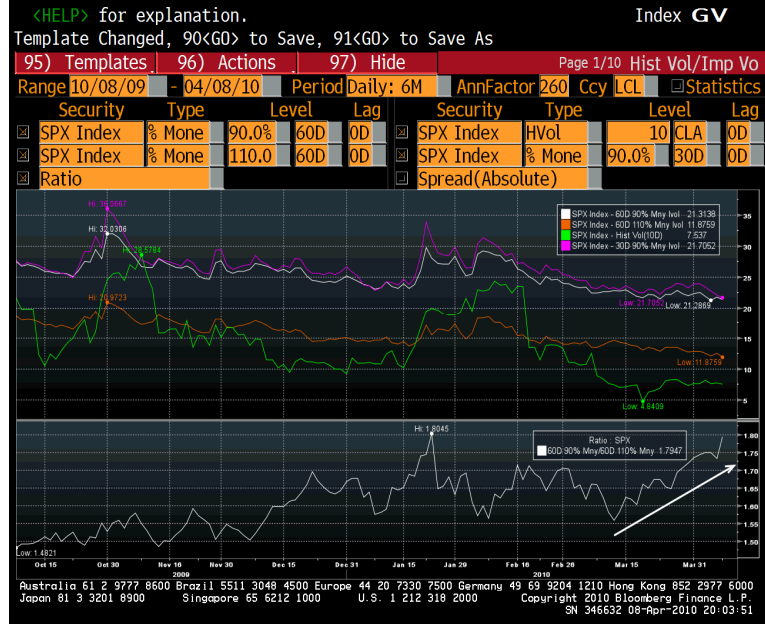
SPX 30-day 30-day 110% Call vs 3-month 95% Put Vol vs 10-day Realized Vol



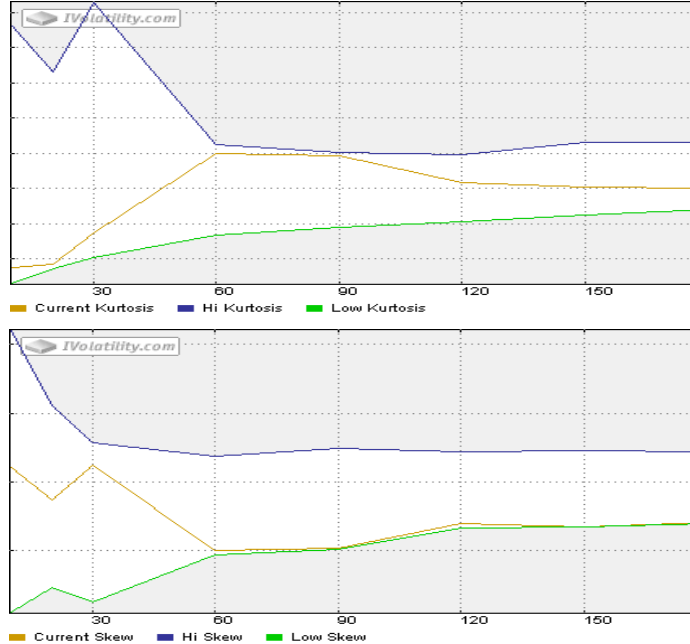
Kurtosis

Kurtosis is the relative peakedness or flatness of a returns distribution compared to the normal distribution (a normal distribution has a zero kurtosis). A distribution is said to be leptokurtic if its tails are fatter than those of a corresponding normal distribution. It is said to be platykurtic if its tails are thinner than those of the normal distribution. Market returns for stocks tend to be slightly leptokurtic. This means that dramatic market moves occur with greater frequency than is predicted by the normal distribution. (60-day SPX Kurtosis below)  
Source: Ivolatility.com

SPX 90% Put / 110% Call 2-month Implied Vol Ratio - Oct 09 to Present



1-year Hi / Lo - Kurtosis - and Skew (ATM Call - ATM Put Vol) 30 to 180-day Maturities



SPX Price Chart, 30-day and 60-day Skew and Kurtosis

