

# Pengana Asian Equities Fund (Onshore)

## April 2010 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

<b>Style</b>	Long/Short Equity	<b>Management Fees <sup>1</sup> (monthly)</b>	1.54% p.a.
<b>Comparative Benchmark</b>	MSCI AC Asia Index	<b>Performance Fees <sup>1</sup> (semi-annually)</b>	20.5% of any increase in Net Asset Value subject to RBA target cash rate hurdle
<b>Investors</b>	Open	<b>AUM at Month End</b>	A\$6.5m
<b>Minimum Initial Investment</b>	A\$20,000	<b>Application Price at Month End</b>	A\$1.0670
<b>Inception Date</b>	01 July 2008 <sup>2,4</sup>	<b>Redemption Price at Month End</b>	A\$1.0616

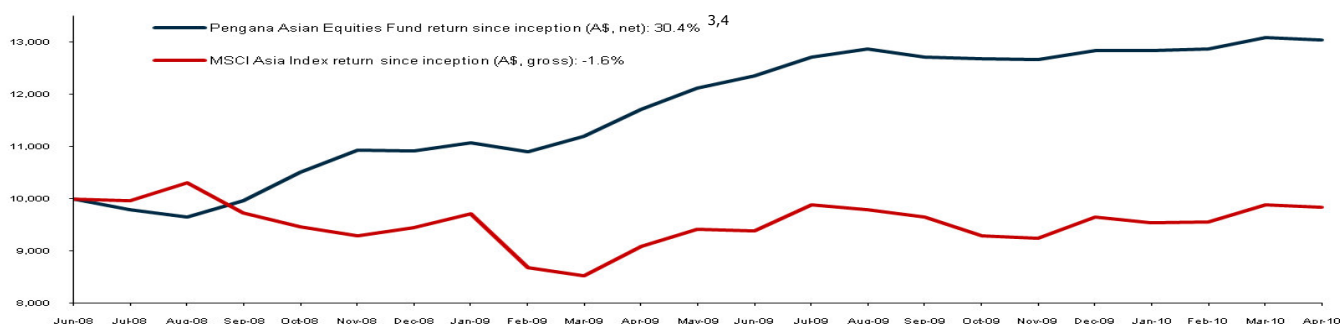
### Fund Commentary

#### Fund Performance (A\$, %, net of fees) <sup>3,4</sup>

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2010	-0.1	0.3	1.6	-0.3									<b>1.6%</b>
2009	1.4	-1.5	2.7	4.6 <sup>4</sup>	3.5	2.0	3.0	1.2	-1.3	-0.2	-0.1	1.3	<b>17.7%</b>
2008							-2.0	-1.5	3.3	5.4	4.1	-0.2	<b>9.1%</b>

MSCI AC Asia Index (A\$, %)													
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2010	-1.0	0.1	3.5	-0.5									<b>2.1%</b>
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	<b>2.1%</b>
2008							-0.3	3.5	-5.6	-2.8	-1.8	1.6	<b>-5.6%</b>



<sup>1</sup> All percentages include GST net of reduced input tax credits. Please refer to the PDS for a more detailed explanation.

<sup>2</sup> 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

<sup>3</sup> Net performance, after all fees and charges, and assuming reinvestment of all distributions. Past performance is not a reliable indicator of future performance.

<sup>4</sup> 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
Annualized Return	15.6%	-0.9%
Annualized Volatility	7.3%	13.4%
Sharpe Ratio <sup>5</sup>	1.4	-0.4
Maximum Drawdown <sup>6</sup>	-3.5%	-17.3%
Max. Recovery Period <sup>7</sup>	2 months	13 months + <sup>8</sup>
Best Monthly Return	5.4%	6.6%
Worst Monthly Return	-2.0%	-10.5%
% of Up Months	59%	41%
Correlation to Index	0.24	

The Fund returned -0.3%<sup>3</sup> net of fees for April 2010, compared to the -0.5% return of the MSCI Asia Index. Since inception in July 2008, the Fund has returned 15.6% p.a.<sup>3,4</sup> net of fees, compared to the Index's negative 0.9% p.a. return.

Regional equity markets closed the month with a 0.7% return in local currency terms, with peripheral markets such as Korea, Indonesia and the Philippines substantially outperforming the main markets of China/HK and Japan. Hong Kong and Thailand were the worst performing markets, with negative returns of over 2%. While the Fund achieved a strong performance in Japan, returning over 1% in local currency terms with an average net exposure of 25%, compared to the 0.5% return of the MSCI Japan Index, most of the gains were offset by a weaker performance in China/HK. Uncertainty about China's tightening economic policy prompted selling in real estate, as well as consumer discretionary sectors, including auto and consumer electronics. Commercial vehicle makers such as Sinotruk, one of the largest heavy duty truck manufacturers in China, and Qingling Motor, a light truck maker parented by Japan's Isuzu, both included in the Fund's portfolio, were among the worst performers for the month, although some of the losses were contained by our short position in Dongfeng Motor.

During the month, we reduced exposure in the financial sector, while maintaining exposure in IT sectors, in particular in Japan.

Top Five Performers	Bottom Five Performers
SHINKO ELEC (Japan, long)	KOMATSU (Japan, long)
LENOVO GROUP (China, long)	ASAHI GLASS CO (Japan, short)
DONGFENG MOTOR-H (China, short)	SINOTRUK (China, long)
CULTURE CONVENIENCE (Japan, long)	NEW WORLD DEPARTMENT STORE (China, long)
ROUND ONE CORP (Japan, long)	CHINA STATE CONS (China, long)

### Market Outlook

While our earlier investment outlook anticipated a global economic recovery this and next year, particularly in the US, leading to a normalisation of monetary policy by that country's government and a weakening of the Japanese Yen against the US Dollar, recent developments in Europe with regard to sovereign debt risks have led us to review this scenario.

<sup>5</sup> Using 5% risk-free rate for Sharpe ratio

<sup>6</sup> The worst period of 'peak to valley' performance, regardless of whether or not the drawdown consisted of consecutive months of negative performance

<sup>7</sup> Time taken to eclipse prior peak following Maximum Drawdown

<sup>8</sup> Not yet returned to prior peak level

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The €750 billion European Sovereign TARP mechanism, which is proposed by the EU governments to support the debt financing needs of Euro-zone governments, will require a tougher fiscal stance. Any such substantial tightening of fiscal spending will lead to slower economic growth in the region as its private sector, a key support point for the economy, is still in fragile health. As Europe is China's largest trade partner, accounting for 20% of its exports, this development is likely to have a negative impact on China's growth in the second half of this year and into next year.

In addition, the ECB's direct purchase of Euro-zone government bonds will lead to a depreciation of the Euro against other major currencies, including the US Dollar and the Japanese Yen. While this will boost the global competitiveness of European companies, it will ultimately weaken the Japanese exporters, particularly in growth markets such as China, where there is direct competition between both in sectors such as machinery, auto and industrial equipments.

While China's domestic A-share market has corrected sharply in response to uncertainties related to the domestic economic policy (with some HK-listed property companies trading at GFC levels), it hasn't discounted the global impact of slower growth in Europe. Similarly, Japan may face further corrections, particularly in export sectors, as the rich valuations in some of the machinery and IT companies do not take account of slower growth both in China and globally. With valuations in China at least reflecting some degree of caution, we favour China/HK over Japan over the short term.

However, over the longer term, we continue to like IT and component companies in Japan as they will benefit from China's second phase of economic modernisation, during which growth will be driven by productivity enhancement and high value-add industries including IT, auto and machinery. We expect details of the new 5-year plan, which sets the focus and foundation for China's economic growth for the 2011-2015 period, to surface towards the third quarter of this year. There is likely to be a strong focus on technological innovation, energy conservation and pollution reduction, with strict capacity controls for heavy energy consumption and high pollution industries. There will also be tax benefits for R&D expenditure and subsidies for new energy investment. We continue to favour IT and consumer sectors over material and energy industries.

<b>Exposure by Sector</b>	<b>Gross</b>	<b>Net</b>	<b>Exposure by Country</b>	<b>Gross</b>	<b>Net</b>
<b>Growth Sectors</b>			HK & China	27%	18%
Energy & Materials	8%	4%	Taiwan	2%	2%
Ind., Con. Discretionary & Tech	41%	28%	South Korea	0%	0%
Financial & Real Estate	26%	10%	Singapore	6%	2%
<b>Defensive Sectors</b>			EM ASEAN	0%	0%
Con. Staples & Healthcare	3%	3%	Japan	42%	26%
Telecom & Utilities	3%	3%	Australia	8%	6%
Futures	5%	5%	<b>Equities</b>	<b>86%</b>	<b>54%</b>
<b>Total</b>	<b>86%</b>	<b>54%</b>			

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