Pengana Global Bond Fund
May 2010 Update, by Greg Clarke

PENGANA CAPITAL

Fund Description

The Pengana Global Bond Fund (the Fund) uses a multi manager approach, investing with investment specialists in different debt asset classes to produce a global diversified bond portfolio. The characteristics of debt instruments vary widely requiring particular expertise for active management. Pengana has selected investment managers that demonstrate a superior understanding of the instruments in which they invest and the markets they trade in. The Fund currently invests in government issued securities, corporate debt, mortgages, bank loans and cash. The Fund's investments are managed within ranges to allow the Fund to take advantage of investment opportunities and manage risk. The exposure to international debt investments is hedged back into Australian dollars with the intention of limiting the Fund's exposure to currency risk.

Fund Features

Style	Multi manager	**Management Fees [1] (monthly)**	Class A: 0.25%; Class B: 0% p.a.
Fund Benchmark	Barclays Global Aggregate Index	**Performance Fees [1] (quarterly)**	Class A: 10%; Class B: 20% p.a. (plus GST net of RITC) over benchmark, net of fees
Fund Objective	To outperform, on an after fees basis and assuming distribution re-investment, the Fund Benchmark over rolling 5 year periods with lower risk	**Underlying Manager Costs**	Underlying investment management fees will not exceed 2% p.a. In addition, underlying managers may charge performance fees
Fund Structure	Australian unregistered wholesale fund with monthly pricing	**Income Distribution**	Annual
Minimum Initial Investment Amount	A$25,000	**Buy/Sell spread**	0.10% / 0.10%
Inception Date	May 2009	**Assets Under Management**	A$223.1*

Fund Commentary

Fund Performance (Class A Units, A$, net of fees and after reinvestment of distributions) [2]													
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2010	1.0%	0.6%	1.9%	1.1%	-0.1%*								4.6%*
2009					1.6%	0.5%	1.5%	1.4%	1.1%	0.7%	0.5%	0.7%	8.2%
Fund Performance (Class B Units, A$, net of fees and after reinvestment of distributions) [2]													
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2010	1.1%	0.6%	1.8%	1.1%	-0.1%*								4.7%*
2009										0.7%	0.5%	0.6%	1.8%
Barclays Global Aggregate Index (A$)													
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2010	1.4%	0.8%	0.6%	0.9%	1.2%								4.8%
2009					0.4%	1.1%	1.5%	1.3%	1.0%	0.5%	1.3%	-0.6%	6.7%

*Manager estimate. This may change.

The portfolio delivered a return of -0.1%* in May and underperformed the strongly performing benchmark return of 1.2%. Since inception the Class A units in the Fund have returned 13.2%pa*[,2] versus the benchmark return of 10.9%pa. The Fund's performance was driven by the defensive position in US 10-year bond futures, the high quality bias in the credit portfolio and exposure to emerging market debt.

May witnessed corrections across most asset classes as investor fears were compounded by the ongoing European debt crisis, public unrest in Greece & Thailand, geopolitical risks in Korea and, possibly, monetary tightening in the emerging markets. Global equity markets underperformed most other asset classes as US 10-year Treasury yields fell to their lowest levels this calendar year. The US dollar appreciated against major currencies and gold prices hit new highs, consistent with rising risk aversion across the capital markets. Global government bond yields in 'safe haven' countries fell sharply over the month, as the risk appetite receded. US Treasuries were a major beneficiary of the flight to safety in May. European investment grade corporate bonds underperformed the broader credit markets in May, reflecting less liquid conditions but, mostly, currency weakness. US high yield posted its worst monthly return since February'09, while US investment-grade returns remained stable.

[1] Plus GST net of reduced input tax credits. Please refer to the Information Memorandum for more detail.
[2] Past performance is not a reliable indicator of future performance. The value of investments may rise and fall.

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Treasury yields have fallen back as investors have sought safety, producing a flatter yield curve. Short term rates are expected to remain low for considerably longer. In the absence of a sharp slowing of global growth, the risk-reward profile of government bond markets is unattractive.

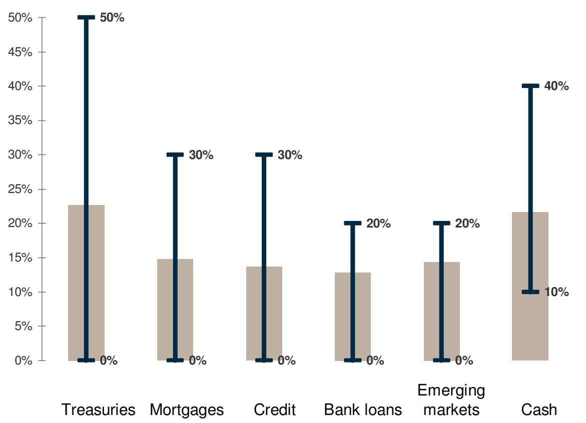
Treasury yields remain 'fair value', but higher growth and interest rates in 2010-2011 suggest that yields will move back up towards 4%. German government bonds are overvalued relative to other bond markets (which are already expensive), but until European policy adequately addresses fundamental sources of insolvency and growth risk, 'core' bond markets will remain expensive. On a medium to long term horizon, government bond yields should head substantially higher, pushing the benchmark 10-year U.S. Treasury into the 5.5% to 6% range. For this reason the Fund remains underweight treasuries and overweight Australian cash.

Investment-grade corporate bond yields remain stable, while speculative-grade yields have edged a little higher over the past few weeks as risk sentiment has deteriorated. Current credit spreads suggest a robust recovery in company profitability has been discounted and the Fund retains a benchmark weight to investment grade credit and bank loans. Emerging market bond spreads widened during the month primarily on the back of concerns about China, which might result in an economic slowdown on the back of tighter monetary policy. However, these fears appear to be overdone and the fundamental story for emerging market debt remains in place.

There appears to be limited downside remaining for risk asset prices provided that the recovery in global economic activity is not derailed. Yields already hit the low end of their range and yields should drift higher in the weeks ahead as European and Chinese authorities gradually ease investor concerns regarding tail risks.

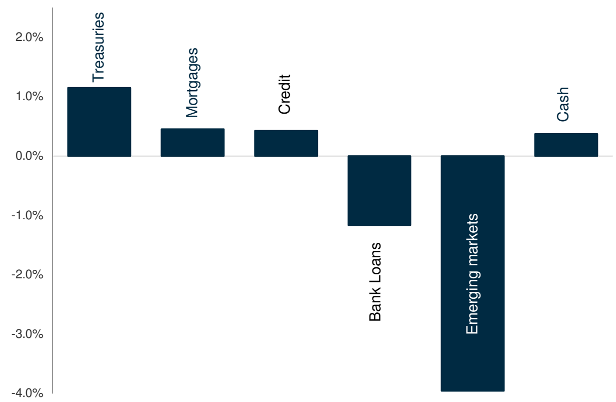
* Class A Unit A$, estimate, net of fees and after reinvestment of distributions

Current Asset Allocation and Ranges*



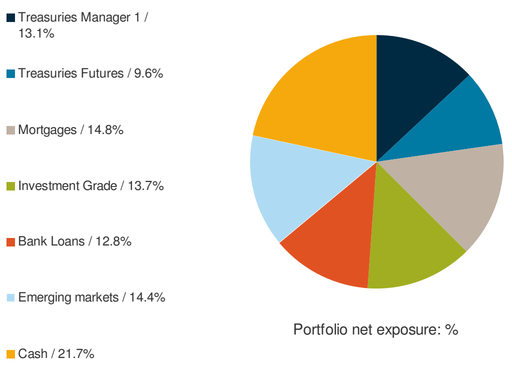
* Adjusted for applications/redemptions and manager changes at month end.

Performance by Asset Class – May 2010**



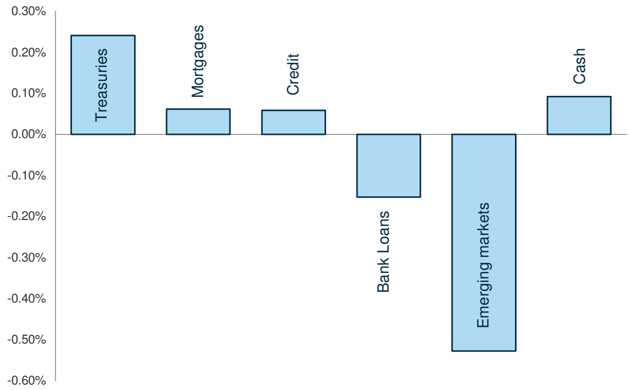
** Manager Estimate. These may change.

Manager Allocations by Asset Class***



*** Adjusted for applications/redemptions and manager changes at month end.

Attribution by Asset Class – May 2010****



**** Manager estimate. Attribution is indicative only and may change.

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