

Pengana Asian Equities Fund (Onshore)

May 2010 Update



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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\$11.9m
Minimum Initial Investment	A\$20,000	Application Price at Month End	A\$1.0654
Inception Date	01 July 2008 ^{2,4}	Redemption Price at Month End	A\$1.0600

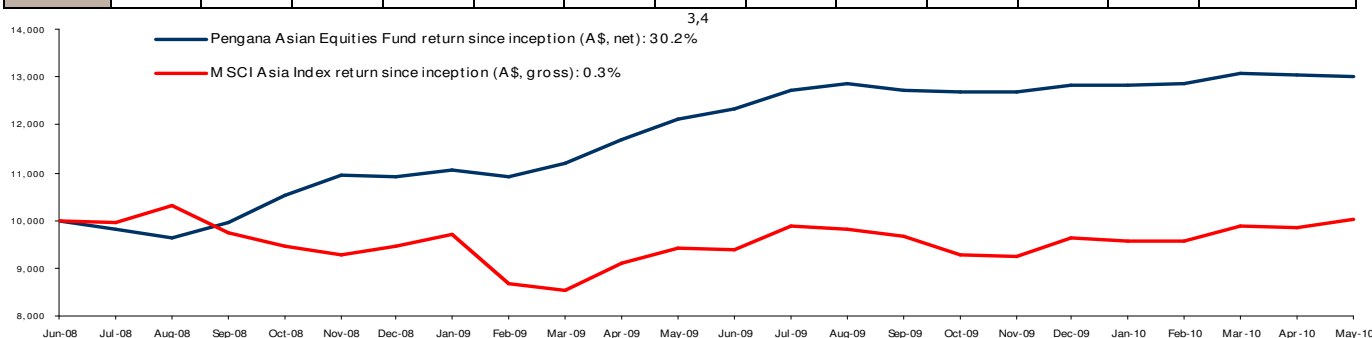
Fund Commentary

Fund Performance (A\$, %, net of fees) ^{3,4}

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2010	-0.1	0.3	1.6	-0.3	-0.2								1.4%
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\$, %)

2010	-1.0	0.1	3.5	-0.5	1.8								3.9%
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
Annualized Return	14.8% ^{3,4}	0.1%
Annualized Volatility	7.2%	13.2%
Sharpe Ratio ⁵	1.4	-0.4
Maximum Drawdown ⁶	-3.5%	-17.3%
Max. Recovery Period ⁷	2 months	14 months + ⁸
Best Monthly Return	5.4%	6.6%
Worst Monthly Return	-2.0%	-10.5%
% of Up Months	57%	43%
Correlation to Index	0.22	

The Fund returned -0.2%³ net of fees for May 2010, compared to the 1.8% return of the MSCI Asia Index. Since inception in July 2008, the Fund has returned 14.8% p.a.^{3,4} net of fees, compared to the Index's 0.1% p.a. return.

Regional equity markets, following global trends, experienced escalating volatility during the month on the back of concerns about sovereign debt in Europe. All major markets experienced substantial declines and the MSCI AC Asia Index declined by 8.5% during the month in local currency terms. However, the sharp depreciation of the Australian Dollar against the US Dollar and the Japanese Yen, by approximately 10%, more than offset the weakness in equity returns, leading to a positive return of 1.8% in the Index in Australian Dollar terms. In US Dollar terms, however, the Index lost over 8%. The Fund has also benefited from the Aussie's weakness as most of its equity holdings were kept unhedged in local currencies, primarily in US Dollar and Japanese Yen. The Fund's currency exposure returned nearly 4%, which largely offset the equity portfolio return of -3.8% for the month. Active currency management has again proved to be effective in managing short-term volatility. Achieving positive returns purely through equity exposure management would have been difficult in this month's volatile and irrational market environment.

During the month, the Fund reduced its market participation by cutting both gross and net exposure to manage further risks associated with credit concerns in Europe. Successful short positions initiated in Japanese capital goods such as THK and SMC as well as Australian banks including Commonwealth Bank of Australia and Westpac Banking compensated for some of the negative returns in the long portfolio, primarily Lenovo and Sinotruck in China.

Top Five Performers	Bottom Five Performers
SMC CORP (Japan, short)	SINOTRUK (China long)
MITSUBISHI CHEM (Japan, short)	LENOVO GROUP (China, long)
ASAHI GLASS (Japan, short)	GCL ENERGY (China, long)
ORIX CORP (Japan, long)	CHINA COSCO (China, long)
WESTPAC BANKING (Australia, short)	CMK CORP (Japan, long)

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 Time taken to eclipse prior peak following Maximum Drawdown

⁸ Not yet returned to prior peak level

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Market Outlook

Following sharp corrections in May, regional equity markets may temporarily stabilise in the very short term. However, upside will be limited as new macro-economic data and corporate earnings are likely to show deceleration globally and regionally, particularly on a year-on-year basis given the very high benchmarks posted in the second half of last year. Developed markets outside China, such as Japan and Australia are more vulnerable as their current earnings forecasts have not fully priced in the slowdown in China. Chinese corporate earnings, particularly in the property and material sectors such as steel, in contrast have seen substantial earnings downgrades, with many property developers now expected to post negative earnings growth for 2011. Major steel companies including Angang Steel and Maanshan Iron&Steel are currently traded below book value, implying these companies will make losses in coming months. We expect further earnings revisions to occur in other material companies, such as cement and coal, most of which are traded well over two times book value. Despite unfavourable news flow in the short term, we prefer steel over cement and coal in China as most of the earnings risks are priced in. We continue to like IT, with Lenovo our core holding in our China long portfolio, but see little value in other consumption plays, although they can be safe havens in the current volatile investment environment.

Outside China, we see earnings risks in Australia as companies enter the annual result reporting season over the next couple of months, with particular caution towards banks. Earnings risks are increasing at Japan's exporters, including semiconductors and IT, as they are very exposed to global growth and trading at substantial premiums over domestic sectors such as financials. However, expectations of a weaker Yen following new Prime Minister Kan taking office is likely to keep exporters' performance stable in the short term. Mr Kan had been a vocal devotee of a weaker Yen when he was the finance minister under Mr Hatoyama, his predecessor.

While Japan's domestic economy is battling deflation and frail demand, strong leadership and a modernised economic vision are highly desirable and crucial to the revitalisation of the economy. The new Kan-led government's election campaign, focused on fighting deflation and rebuilding fiscal health, and is likely to lead to renewed debate about an increase in consumption tax from 5% to 10% and a cut in the corporate tax rate from the current average of 40%. These are all refreshing and original policy suggestions when compared to previous stimulus attempts and will be put to the public to decide. If the new government can win its mandate in the July election, it will bring much needed political stability, with no elections due for another three years. It is premature to bank on a drastic change but a heated political debate could generate a much-needed glimpse of hope for Japan. We expect trading opportunities in the financial sector including real estate and banks, with record low earnings expectations and most trading well below book value.

Exposure by Sector	Gross	Net	Exposure by Country	Gross	Net
Growth Sectors			HK & China	22%	6%
Energy & Materials	4%	1%	Taiwan	0%	0%
Ind., Con. Discretionary & Tech	26%	1%	South Korea	0%	0%
Financial & Real Estate	18%	4%	Singapore	6%	1%
Defensive Sectors			EM ASEAN	0%	0%
Con. Staples & Healthcare	4%	1%	Japan	24%	3%
Telecom & Utilities	5%	3%	Australia	6%	0%
Futures	0%	0%	Equities	58%	10%
Total	58%	10%			

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