

# Pengana Global Bond Fund

## June 2010 Update, by Greg Clarke



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### 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

<b>Style</b>	Multi manager	<b>Management Fees <sup>1</sup> (monthly)</b>	Class A: 0.25%; Class B: 0% p.a.
<b>Fund Benchmark</b>	Barclays Global Aggregate Index	<b>Performance Fees <sup>1</sup> (quarterly)</b>	Class A: 10%; Class B: 20% p.a. (plus GST net of RITC) over benchmark, net of fees
<b>Fund Objective</b>	To outperform, on an after fees basis and assuming distribution re-investment, the Fund Benchmark over rolling 5 year periods with lower risk	<b>Underlying Manager Costs</b>	Underlying investment management fees will not exceed 2% p.a. In addition, underlying managers may charge performance fees
<b>Fund Structure</b>	Australian unregistered wholesale fund with monthly pricing	<b>Income Distribution</b>	Annual
<b>Minimum Initial Investment Amount</b>	A\$25,000	<b>Buy/Sell spread</b>	0.10% / 0.10%
<b>Inception Date</b>	May 2009	<b>Assets Under Management</b>	A\$224.6*

### Fund Commentary

<b>Fund Performance (Class A Units, A\$, net of fees and after reinvestment of distributions) <sup>2</sup></b>													
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2010	1.0%	0.6%	1.9%	1.1%	-0.1%	1.0%*							5.6%*
2009					1.6%	0.5%	1.5%	1.4%	1.1%	0.7%	0.5%	0.7%	8.2%
<b>Fund Performance (Class B Units, A\$, net of fees and after reinvestment of distributions) <sup>2</sup></b>													
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2010	1.1%	0.6%	1.8%	1.1%	-0.1%	1.0%*							5.7%*
2009										0.7%	0.5%	0.6%	1.8%
<b>Barclays Global Aggregate Index (A\$)</b>													
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2010	1.4%	0.8%	0.6%	0.9%	1.2%	1.2%							6.1%
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 Class A units in A\$ delivered a return of 1.0%\* in June and underperformed the benchmark return of 1.2%. Since inception the Class A units in A\$ have returned 12.1%pa\* versus the benchmark return of 11.2%pa. The Fund's performance for the month was again driven by the defensive position in US 10-year bond futures and the high quality bias in the credit portfolio. The Fund's mortgage exposure and emerging markets exposure also contributed to performance.

While tensions in the Euro area sovereign bond and banking sectors have moderated slightly over the month, investor worries have rotated to the global growth outlook. Some softening in global indicators and a return to a fiscal austerity mindset caused a rush into government bonds, driving yields down to levels consistent with a recession. Some countries have no choice but to slash spending and hike taxes (the European periphery). But even countries that are not being forced by markets to consolidate are doing so anyway (U.K. and Germany). In the US, fiscal policy is also set to tighten significantly. While investors want to see that the authorities are serious about reining in budget deficits, there is also concern that fiscal consolidation may occur too early and derail a fragile global recovery.

The current bond rally has reflected a combination of declining real yields and inflation expectations. However the extremely low level of real yields suggests that the rally is overdone. The real 10-year Treasury yield has dropped to 70 basis points, a level last reached in late 2009, when US employment was falling and it was not clear if consumers would ever spend again. The real 10-year

<sup>1</sup> Plus GST net of reduced input tax credits. Please refer to the Information Memorandum for more detail.

<sup>2</sup> Past performance is not a reliable indicator of future performance. The value of investments may rise and fall

Pengana Capital Ltd (ABN 30 103 800 568, Australian financial services licence number 226566) is the issuer of units in the Pengana Global Bond Fund (the "Fund"). Only wholesale clients may invest in the Fund. An Information Memorandum for the Fund is available and can be obtained from our distribution team. A person should obtain a copy of the Information Memorandum and should consider the Information Memorandum carefully before deciding whether to acquire, or to continue to hold, or making any other decision in respect of, the units in the Fund. This report was prepared by Pengana Capital Ltd and does not contain any investment recommendation or investment advice. This report has been prepared without taking account of any person's objectives, financial situation or needs. Therefore, before acting on any information contained within this report a person should consider the appropriateness of the information, having regard to their objectives, financial situation and needs. Neither Pengana Capital Ltd nor its related entities, directors or officers guarantees the performance of, or the repayment of capital or income invested in, the Fund. An investment in the fund is subject to investment risk including a possible delay in repayment and loss of income and principal invested.

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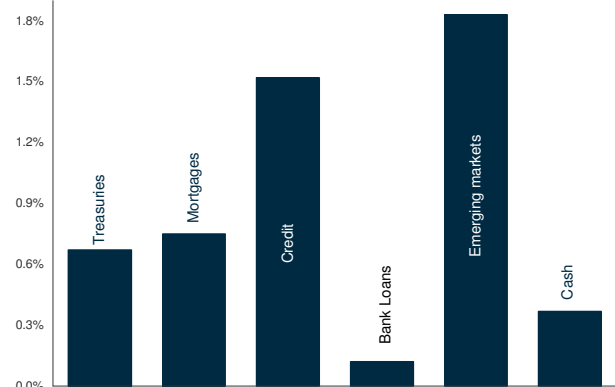
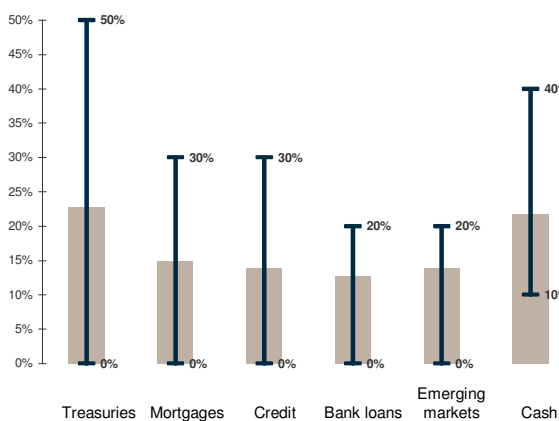


UK gilt yield has moved back into negative territory, almost to levels that existed at the worst of the recession and financial crisis and the real German bund yield is even lower than at any time during the last recession, at about 70 basis points. The Fund retains its underweight position to treasuries on the basis of valuation. However in the current environment, the Fund's defensive futures in US 10 Year Bond Index futures have provided some insulation in absolute return terms.

With the focus on sovereign risk and the corporate backdrop relatively benign, investment-grade and high-yield corporate bond yields retraced over the month. With the US earning reporting season starting in June investors will be watching to see the extent to which companies have been impacted by an apparent slowing in global growth. We continue to believe the fundamentals remain positive for companies despite slowing economic growth and therefore the Fund remains at benchmark weight to credit including investment grade credit and bank loans. Emerging market bonds also regained some of the ground lost last month. Emerging economies are not immune from slowing global growth from the G20 economies although better positioned than in previous years. The fundamental story for emerging market debt remains strong on both a US and local currency basis.

While indications are that global economic growth will slow, it appears that barring a move into a Japanese style deflationary environment, pessimism has been overdone and markets have entered a consolidation phase. Consequently, we remain wary of rising bonds yields (as shown by our high cash weight) and overweight higher quality risk assets.

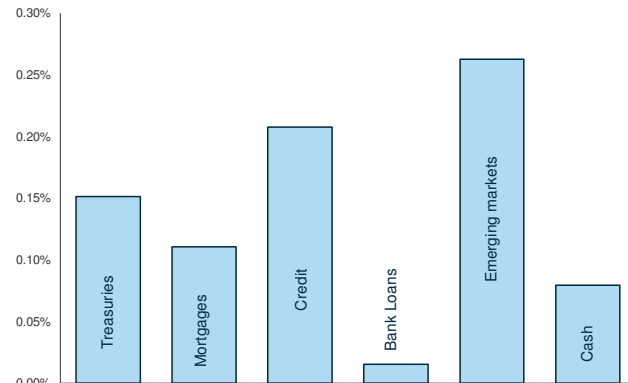
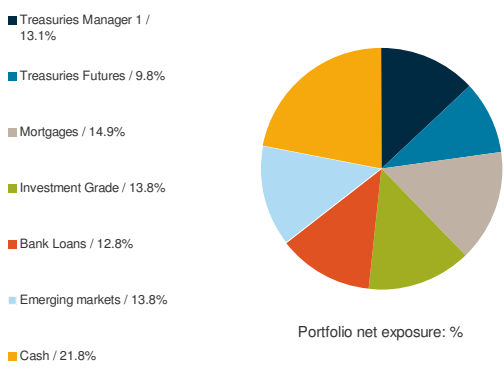
### Current Asset Allocation and Ranges\* Performance by Asset Class – June 2010\*\*



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

\*\* Manager Estimate. These may change.

### Manager Allocations by Asset Class\*\*\* Attribution by Asset Class – June 2010\*\*\*\*



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

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

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