Pengana Asian Equities Fund (Onshore)
July 2010 Update

Pengana Asian Equities Fund (Onshore)

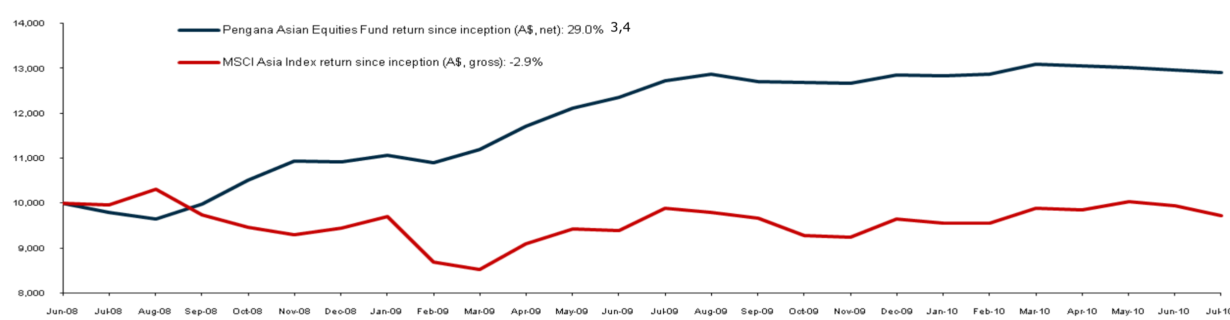
The Pengana Asian Equities Fund (Onshore) (the "Fund") provides investors with equity exposure to companies within the Asia Pacific region. The Fund is managed out of Sydney, Australia. The Fund utilises a core strategy of being both long and short securities in order to reduce volatility and generate stable long-term absolute returns.

Fund Features

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$13.7m
Minimum Initial Investment	A$20,000	**Application Price at Month End**	A$1.0420
Inception Date	01 July 2008 [2,4]	**Redemption Price at Month End**	A$1.0368

Fund Commentary

Fund Performance (A$, %, net of fees) [3,4]													
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	**YTD**
2010	-0.1	0.3	1.6	-0.3	-0.2	-0.4	-0.5						**0.4%**
2009	1.4	-1.5	2.7	4.6 [4]	3.5	2.0	3.0	1.2	-1.3	-0.2	-0.1	1.3	**17.7%**
2008							-2.0	-1.5	3.3	5.4	4.1	-0.2	**9.1%**
MSCI AC Asia Index (A$, %)													
2010	-1.0	0.1	3.5	-0.5	1.8	-0.8	-2.3						**0.7%**
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.

Pengana Asian Equities Fund (Onshore)
July 2010 Update

	Fund Features since Inception[3,4]	Index Features since Inception
Annualized Return	13.0%	-1.4%
Annualized Volatility	7.1%	12.7%
Sharpe Ratio [5]	1.1	-0.5
Maximum Drawdown [6]	-3.5%	-17.3%
Max. Recovery Period [7]	2 months	16 months + [8]
Best Monthly Return	5.4%	6.6%
Worst Monthly Return	-2.0%	-10.5%
% of Up Months	52%	40%
Correlation to Index	0.24	

The Fund returned -0.5%[3] net of fees for July 2010, compared to the -2.3% return of the MSCI Asia Index. Since inception in July 2008, the Fund has returned 13.0% p.a.[3,4] net of fees, compared to the Index's -1.4% p.a. return.

Global equity markets continued to follow a volatile path. After sharp corrections in previous months due to escalating concerns about Europe's sovereign risks, markets recovered strongly during the month.

As discussed in our previous monthly update, the European Central Bank's reluctance to further inject liquidity will lead to tight credit supply and a subsequent Euro appreciation. Compounding this, weaker-than-expected economic data from the US during the month also raised fears of a faltering US recovery, accelerating the pace of the US Dollar's depreciation, leading to a 6% return by the Euro against the Dollar. The weaker Dollar induced a return of risk appetite, encouraging fund flows into higher risk asset classes, including emerging market equities. Asian equity markets, in particular Asia ex-Japan, benefited from this shift in risk taking behaviour, with the MSCI Asia ex-Japan Index returning 4.6% in local currency terms.

During the month, China's economic data - including industrial production and GDP growth rate for the second quarter - indicated an economic slowdown, raising expectations of a relaxation of the government's current tight economic policy. This led to strong performance in both the Chinese domestic equity market (the A-share market for domestic investors) and the Hong Kong-listed Chinese equities, returning 10% and 4%. In particular, high beta sectors such as properties and materials, which experienced sharp sell-offs previously, were among the best performers. On the other hand, the weak US Dollar drove the sharp appreciation of the Japanese Yen, limiting the country's equity performance, with a mere 1% return in Yen terms.

The Dollar's weakness, however, has pushed up the Australian Dollar, which appreciated by 5.2% during the month, resulting in a -2.3% return by the MSCI Asia including-Japan Index in Australian Dollar terms. The Fund's prudent management of risks of both equity and currency exposure helped minimise the negative impact of the Australian Dollar's appreciation to 1.8%, in turn maximising the equity portfolio's return of 1.6%, and leading to a substantial outperformance to the Index.

[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

During the month, we adjusted some of the positions in the real estate sector but overall kept most of the positions unchanged, in particular our short positions in energy and materials sectors. These sectors' performance this month was determined by short covering and a lack of fundamental support. As we are entering the first half results season for many Asian companies, the market's focus will shift to the companies' outlook for the second half and we expect volatilities to rise. We hold the view that China's growth will continue to slow and sectors exposed to China's growth, such as materials, are likely to see their earnings growth decelerate. This pattern is unlikely to bottom out before mid-2011.

Top Five Performers	Bottom Five Performers
LENOVO GROUP (China, Long)	DONGFENG MOTOR (China, Short)
CHINA SHINEWAY (China, Short)	ANHUI CONCH (China, Short)
SONY CORP (Japan, Long)	NIKON CORP (Japan, Long)
FORTESCUE METALS (Australia, Long and Short)	THK (Japan, Long)
SINOTRUCK (China, Long)	SUNTECH POWER (China, Long)

Market Outlook

While this month's equity movements, to some extent, were led by the currency market, we did witness an unusual phenomenon: while the US Dollar depreciated sharply against all major currencies, the Japanese Yen appreciated sharply against the US Dollar. With its ultra low interest rates, the Japanese Yen is generally considered a defensive currency, often used as a financing currency for carry trades. As a result, historically, it has a negative correlation with Asian equities markets. When local equities perform strongly, the Yen tends to depreciate against the US Dollar, leading to a stronger performance of its export companies. On the other hand, when risk appetites retreat and regional equities perform negatively, the Yen tends to appreciate against the Dollar. However, this relationship broke down this month and despite the strong performance of regional equities, the Yen *appreciated* against the Dollar, leading to the underperformance of its equity market.

While some explanation can be found in the weakness of the Dollar, we take the view that a more fundamental issue, related to the weak political leadership in Japan, plays a role in this extraordinary move in the Yen. Normally, when currency markets show increasing volatility, governments tend to utilise currency intervention to decelerate the pace of this volatility. However, after the July general election, the ruling party lost its majority, finding it increasingly hard to implement new policies to support the fragile economic recovery. This lack of leadership prompted market speculation of an absence of intervention, even if the Yen appreciated sharply. This market belief, combined with the weakness in the Dollar, led to an increase in trading strategies that shorted Japanese equities while taking long positions in the Yen.

As many long-standing investors in Japan have found, any hope of a strong leadership in Japan is bound to be disappointed. However, Japanese politicians and bureaucrats somehow can find ways to work together when a crisis strikes. With the Nikkei 225 Index sinking to levels close to that seen during the global financial crisis in 2008, the sense of crisis has heightened with regard to the sharp decline of the Dollar/Yen rate. This is likely to draw some concerted response and an effort to slow the pace of the Yen's appreciation. This could lead to a reversal of the long Yen / short equities trades.

Fundamentally, Japanese export companies are becoming increasingly competitive, having become in fact much less sensitive to currency movements. Despite the sharp appreciation of the Yen, many companies reported much better-than-expected earnings for their fiscal first quarter and most of them either raised or kept their earnings outlook for 2010 unchanged, while cutting their foreign exchange rate assumptions. Honda, one of Japan's big three auto makers, announced it would remain profitable even if the Yen appreciates to 85 Yen to the Dollar, which would be close to a historical high and well above that seen in 2008. The Yen only briefly dipped below 80 Yen to the Dollar in 1995 and subsequently depreciated sharply following government intervention.

This demonstrates how competitive Japanese export companies have become over the last decade and the benefit they could reap once current currency volatility subsides. Utilising the currently weak sentiment towards Japan, we continue to accumulate quality companies that will benefit from China's structural change in growth pattern towards a productivity focus. Potential beneficiaries include machine tool and components companies such as Fanuc, the world's largest robot manufacturer, and THK, the world's largest liner guide supplier, as well as electronic component companies such as Shinko Electric, a component supplier to Intel, and Nichicon, whose aluminium capacitors will benefit from China's push for energy efficient air-conditioners.

On the other hand, we are more cautious in Hong Kong/China, and kept our short positions in high beta sectors such as steel, cement and coal, while adding exposure in consumer-related companies. As the market's rally led to an underperformance of some consumer and capital goods companies, we used the opportunity to initiate new positions in Shanghai Jinjiang Hotel, one of China's largest hotel chain operators, and Shanghai Electric Power, one of the country's largest electric power equipment manufacturers and likely to benefit from China's rising investment in alternative energies, including nuclear power.

Exposure by Sector	**Gross**	**Net**	**Exposure by Country**	**Gross**	**Net**
Growth Sectors			HK & China	36%	6%
Energy & Materials	27%	-18%	Taiwan	1%	1%
Ind., Con. Discretionary & Tech	70%	30%	South Korea	5%	-1%
Financial & Real Estate	28%	12%	Singapore	6%	0%
Defensive Sectors			EM ASEAN	0%	0%
Con. Staples & Healthcare	11%	-3%	Japan	59%	22%
Telecom & Utilities	6%	5%	Australia	37%	-1%
Futures	1%	1%	**Equities**	**144%**	**27%**
Total	**144%**	**27%**			

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** or contact:

Institutional Clients: Denis Carroll, +61 2 8524 9974, denis.carroll@pengana.com

Private Clients: Juliet Dunworth, +61 2 8524 9984, juliet.dunworth@pengana.com