

Pengana Asian Equities Fund (Onshore) August 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

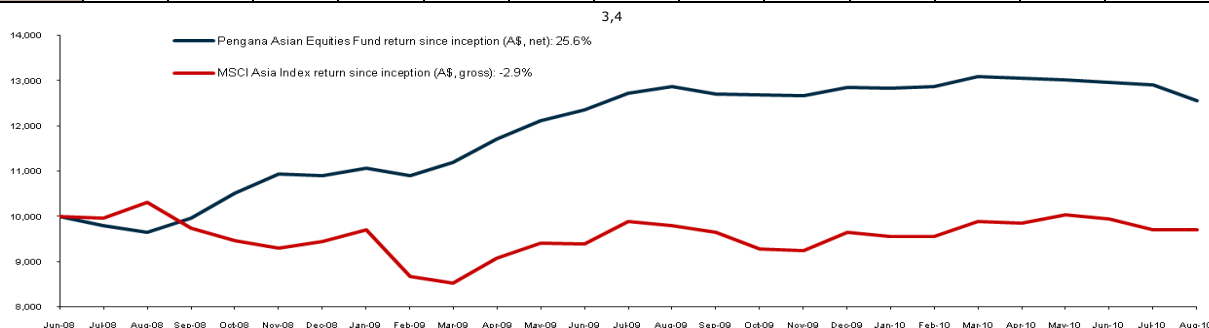
Style	Long/Short Equity	Management Fees¹ (monthly)	1.54% p.a.
Comparative Benchmark	MSCI AC Asia Index	Performance Fees¹ (semi-annually)	20.5% of any increase in Net Asset Value subject to RBA target cash rate hurdle
Investors	Open	AUM at Month End	A\$13.6m
Minimum Initial Investment	A\$20,000	Application Price at Month End	A\$1.0146
Inception Date	01 July 2008 ^{2,4}	Redemption Price at Month End	A\$1.0096

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	-2.6					-2.2%
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\$, %)													
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2010	-1.0	0.1	3.5	-0.5	1.8	-0.8	-2.3	0.0					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.

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	Fund Features since Inception	Index Features since Inception
Annualized Return	11.1%	-1.4%
Annualized Volatility	7.4%	12.5%
Sharpe Ratio ⁵	0.8	-0.5
Maximum Drawdown ⁶	-4.0%	-17.3%
Max. Recovery Period ⁷	1 months + ⁸	17 months + ⁸
Best Monthly Return	5.4%	6.6%
Worst Monthly Return	-2.6%	-10.5%
% of Up Months	50%	38%
Correlation to Index	0.22	

Summary

- Fears that the US economy may fall into another recession accelerated the sell-off in the US Dollar against the Japanese Yen, pushing down the US interests rates to historical lows and negatively affecting global equities, in particular the technology sector.
- The Fund's performance for August was affected by its exposure to the technology sector - especially in Japan, where the Yen appreciated sharply against the US Dollar - and its low exposure to the ASEAN markets. The Australian Dollar's weakness this month cushioned some of the equity portfolio's negative returns but failed to offset all of the impact due to the Fund's relatively low Japanese Yen exposure.
- The currently popular trades of long emerging market assets and US government debt versus short US Dollar and equities carry potential risks if US interest rates start to rise, in line with market expectations that the US can avoid Japanese style deflation and some level of inflation will return. Recent announcements by some US IT companies that they will issue debt to buy back shares demonstrate the attractiveness of equities relative to bonds.
- China's highly anticipated 12th five-year plan, which will direct the country's economic development from 2011 to 2015, is likely to be announced in October and will show a greater emphasis on energy efficiency and technological innovation. Our investment strategy continues to focus on companies across the region that will benefit from the development of China's future strategic industries, including alternative energy, alternative energy vehicles, new materials, high-tech equipment, biotech, IT, and energy-efficient & environment-friendly technologies.
- The Fund achieved a 4 stars rating from Standard & Poor's.

The Fund returned -2.6%³ net of fees for August 2010, compared to the 0.0% return of the MSCI Asia Index. Since inception in July 2008, the Fund has returned 11.1% p.a.^{3,4} net of fees, compared to the Index's -1.4% p.a. return.

During the month, investor concerns about the US falling back into a recession were reflected in an acceleration of the Japanese Yen's appreciation against the US Dollar and other major currencies and a sharp sell-off in technology stocks globally. Following a 5% gain last month, the Yen appreciated another 5% this month against the Dollar, pushing the Japanese equity markets to levels last seen during the global financial crisis in 2008. A lack of confidence in the Japanese government's strength of leadership and ability to execute a successful intervention to stabilise its currency's volatility also accelerated the pace of the

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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appreciation and kept equity investors at bay. Mounting concerns about the US economy following weak consumer spending figures pushed US interest rates to historical lows and triggered sharp sell-offs in the IT sector, one of the best performing sectors in the first half of this year.

The Fund's equity portfolio's tilt towards the technology sector, particularly in Japan, affected returns, despite the strong performance of its short positions, which included Japan's Komatsu, Olympus and China Merchant Holdings. The equity portfolio in local currency terms returned -4.0% for the month, compared to -3.0% by the MSCI Asia Index. As the Australian Dollar depreciated against the Yen and the US Dollar during the month, the Fund's currency exposure generated a 1.4% return, compared to 3.1% by the Index, due to the Fund's relatively low exposure in Japanese Yen.

During the month, we took profit in some of the short positions while keeping most of the exposure in the IT sector unchanged as we believe the industry is going through a shift from cyclical to structural growth, driven by Chinese demand. By the end of this year, we expect China's demand for LCD TVs to exceed the US to become the world's largest market for these products. Going forward, China's rising demand for electronic goods and high-end industrial equipment will generate strong growth for electronic component and semiconductor companies.

Top Five Performers	Bottom Five Performers
TOHO TITANIUM (Japan, Short)	NICHICON CORP (Japan, Long)
CHARTER HALL RET (Australia, Long)	OMRON CORP (Japan, Long)
OLYMPUS CORP (Japan, Short)	SHINKO ELEC INDU (Japan, Long)
CHINA MERCHANT (China, Short)	SUNTECH POWER (China, Long)
KOMATSU (Japan, Short)	THK (Japan, Long)

Market Outlook

US economy concerns, the resulting decline in US interest rates and the weakening of the US Dollar against most currencies, in particular the emerging markets currencies, helped Asian equity markets outside Japan and China to a strong performance over the past year. Peripheral ASEAN markets such as Malaysia, Thailand and Indonesia returned over 20-30%, while China and Japan were among the worst performers, returning -15% and 10% in local currency terms. While these concerns are understandable to some degree in the short term given the sluggish US economic data, we view a US double-dip scenario as unlikely. We do expect the economy to have a cyclical slowdown towards the end of this year and this will do nothing to calm concerns about a possible advent of Japanese style of deflation in the US. We see the probability of this occurring as low, as the US central bank is implementing growth accommodative policies and supplying ample liquidity to the economy. This contrasts with the Bank of Japan's approach during the 1990s, when it maintained a very tight monetary policy, constraining money supply even during periods when the country experienced severe deflation. Year-to-date, the Bank of Japan's balance sheet has shrunk by Y9 trillion (A\$ 112 billion), according to MUFG Morgan Stanley Securities, confirming the continued tight money supply conditions in Japan.

The difference in approach between the two central banks is the consequence of the fundamental differences in their mandates. While the US' Federal Reserve Bank focuses on full employment and price stability, and is more growth oriented, the BOJ's emphasis is on price stability alone, making it slow to adopt proactive policies to deal with deflation. With the combined proactivity of the US central bank (monetary policy) and the government (fiscal policy), the US will be able to avoid a double-dip recession. The currently popular trades of short US Dollar and equities combined with long US Treasuries and emerging markets assets (both currency and equities) could run into difficulties once US interest rates bottom out. Recent

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economic data, such as retail sales and inflation, are showing signs that the US is avoiding deflation. As inflation expectations return, the risks of unwinding such trades could be substantial.

China's current five-year plan (2005 – 2010) is drawing to an end and the new 12th five-year plan (2011 – 2015) will be formalised soon and is likely to be announced in October. With the new plan, we are starting to get greater clarity around China's future economic policies. This will reduce the policy-related equity market uncertainty and lead to an outperformance of Chinese equities. We are turning more positive on China and are gradually accumulating exposure in industrial companies that will benefit from China's future investment in alternative energy and aerospace. Specifically, we centre our stock selection on those new industries designated by the government as 'future strategic industries', including alternative energy, alternative energy vehicles, new materials, high-tech equipment, biotech, energy-efficient & environment-friendly technologies, and IT.

Exposure by Sector	Gross	Net	Exposure by Country	Gross	Net
Growth Sectors			HK & China	44%	0%
Energy & Materials	11%	-11%	Taiwan	0%	0%
Ind., Con. Discretionary & Tech	57%	26%	South Korea	3%	0%
Financial & Real Estate	46%	13%	Singapore	3%	-1%
Defensive Sectors			EM ASEAN	0%	0%
Con. Staples & Healthcare	8%	8%	Japan	59%	28%
Telecom & Utilities	9%	5%	Australia	26%	8%
Futures	5%	-5%	Equities	135%	35%
Total	135%	35%			

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