

Pengana Asian Equities Fund (Onshore)

October 2010 Update



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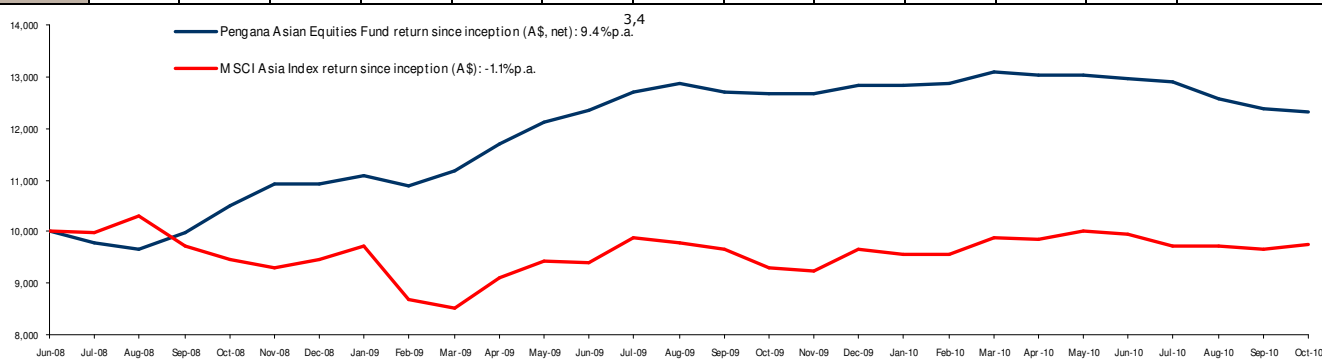
The Pengana Asian Equities Fund (Onshore) (the "Fund") provides investors with equity exposure to companies within the Asia Pacific region. The Fund is managed out of Sydney, Australia. The Fund utilises a core strategy of being both long and short securities in order to reduce volatility and generate 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\$14.1m
Minimum Initial Investment	A\$20,000	Application Price at Month End	A\$0.9961
Inception Date	01 July 2008 ^{2,4}	Redemption Price at Month End	A\$0.9911

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	-1.4	-0.4			-4.0%
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	0.0	-0.7	1.1			1.1%
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 ^{3,4}	Index Features since Inception
Annualized Return	9.4%	-1.1%
Annualized Volatility	7.3%	12.0%
Sharpe Ratio ⁵	0.6	-0.5
Maximum Drawdown ⁶	-5.7%	-17.3%
Max. Recovery Period ⁷	1 months + ⁸	19 months + ⁸
Best Monthly Return	5.4%	6.6%
Worst Monthly Return	-2.6%	-10.5%
% of Up Months	46%	39%
Correlation to Index	0.22	

The Fund returned -0.4%³ net of fees for October 2010, compared to the 1.1% return of the MSCI Asia Index. Since inception in July 2008, the Fund has returned 9.4% p.a.^{3,4} net of fees, compared to the Index's -1.1% p.a. return.

The Fund's performance for October has been impacted by our equity exposure in China, in particular the short positions in the material and financial sectors such as cement, steel and real estate, as the abruptly weakening US Dollar drove these high beta sectors substantially higher earlier in the month. Increased expectations of quantitative easing by the US central bank led to a decline in short-term interest rates to historical lows and correspondingly triggered a rally in higher risk assets such as commodities and emerging market currencies.

In addition, the continued appreciation of the Japanese Yen, despite the Bank of Japan's effort to slow its ascent by increasing liquidity, dampened equity performance. The Fund's Japanese equity portfolio, which performed substantially better than the market with -0.3% return compared to the Nikkei's -1.8%, was unable to fully offset the negative returns from the China exposure. The equity portfolio returned -0.3%, compared to 0.2% by the MSCI Asia Index in local currency terms. On the currency front, low exposure in the Japanese Yen produced limited gains relative to the Index as the Yen appreciated against the US Dollar and Australian Dollar.

During the month, we reduced some of our exposure to China's material and financial sectors as their performance is now primarily driven by the US Dollar's movement rather than by fundamentals or valuation. Due to aggressive capacity expansion over the last ten years, the Chinese material and financial sectors have matured and are now entering a consolidation phase, and this will eventually lead to lower valuations and multiple compressions. Valuations such as that of Anhui Conch, China's largest cement company, at over 20x expected earnings and 3x book value, are unlikely to be sustained. However, in the short term, as the US Dollar continues to weaken in line with the Fed's aggressive monetary easing, these sectors could carry further momentum with rising volatility, which would increase the risks of carrying short positions. Until currency trends stabilise, the US Dollar is a better hedging tool to manage volatility due to its negative correlation with the Hong Kong equity market.

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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We implement a similar strategy to manage volatility in Japan by utilising the Japanese Yen's negative relationship with its equity market. With Japanese equity valuations currently at historical lows, particularly when looking at price to earning ratios, limited protection can be obtained through equity shorts, as the downside risk in equities is limited. On the other hand, the strong Yen has remained the biggest threat to the Japanese economy and equity investment. While it is not feasible to predict currency directions, particularly when the US Fed is heavily involved in managing US Dollar liquidity, the Yen's appreciation may gradually lose momentum as the Bank of Japan starts to implement its own aggressive quantitative easing program later this year and early next year. The BOJ's new asset purchase program of over U\$60 billion, which will not only buy government bonds but also higher risk assets such as ETFs and J-REITs, is the most aggressive in recent history, despite the actual amount made available still being up for debate. This initiative, one of the most unprecedented for a central bank with a tendency to be too conventional, is evidence of the mounting domestic pressure on the Bank to fight deflation. The current low valuations offered by Japanese equities, in terms of not only price to book but also price to earning ratios and dividend yields, are unprecedented. These low valuations exist despite the fact that Japanese companies are increasingly regaining competitiveness through cost cutting and a restructuring of their production base. The fact that this effort by Corporate Japan remains ignored by investors can only be explained by the country's very tight credit environment, brought on by tight liquidity and a strengthening currency. However, as the implementation of BOJ's program starts and liquidity begins to flow into the system, such low valuations will be adjusted.

An example of these valuation anomalies is Aisin Seiki, one of the world's largest auto transmission companies, with annual sales of US\$20 billion, currently traded at nearly single digit earnings and less than 1x book value. These valuations imply that the company will not grow its earnings for the foreseeable future although it generates more than 20% of its earnings from Asia, particularly China, which has the largest and fastest growing auto market in the world. We believe Japanese auto parts and industrial equipment parts companies offer some of the best opportunities to participate in China's future growth.

Top Five Performers	Bottom Five Performers
SINOTRUK (China, Long)	QUANGZHOU R&F (China, Short)
COMTEC SOLAR (China, Long)	SUNTECH POWER (China, Long)
NSK (Japan, Long)	ANGANG STEEL (China, Short)
GREAT WALL MOTOR (China, Long)	T&D HOLDING (Japan, Long)
ING INDUSTRIAL (Australia, Long)	CHINA NATL BDG (China, Short)

Market Outlook

While global financial markets continue to be driven by macro events and more specifically by currency trends, companies' underlying fundamentals have been largely ignored. After the global financial crisis in 2008, markets went through sharp corrections in 2008, followed by a strong recovery in 2009. 2010 proved to be the year of changing public sector involvement, with governments withdrawing support (through fiscal stimuli) but central banks stepping up (with further monetary easing). This strong public sector role has throughout the year distorted many historical relationships, with the most pronounced breakdowns in currency markets, such as the previously unseen simultaneous appreciation of the Yen and higher risk assets. Historically, the Yen tended to depreciate when risk appetite returned. 2010 is proving to be a difficult year for equity investors with a fundamental focus. As eventually, government and central bank involvement will have to be scaled down to let the market play its role, we expect 2011 to be the year of the return of market forces. In such an environment, fundamentals will again play an important role in determining the value of investments. Now is the time to go back to basics and look at companies' underlying fundamentals.

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While market focus currently is on the US, we think the catalysts for a change in current trends will come from elsewhere, namely China. Key factors will be the rising competitiveness of Chinese companies in advanced industries and the return of inflation brought on by China's rising labour costs. Going forward, investing in Asia is no longer about gaining leverage to global growth but a hedge against future risks. Investing in Chinese equipment companies is a hedge against foreign companies losing market share to China and investing in Japanese equities is a hedge against the return of inflation.

During the month, we spent a week in China visiting major second tier cities such as Jinan, Changsha and Chongqing, researching a wide range of companies, including heavy machinery, truck manufacturing and healthcare companies. Although since 1994, we have regularly visited Chinese companies' production sites, this trip allowed us to witness the more rapid progress made by some of the largest private Chinese manufacturing companies in terms of production efficiency. Sany Industry, one of the largest construction and heavy machinery companies in China, with annual sales of over US\$5 billion in 2009, was started by a few young engineers and their professor some 20 years ago in a small welding workshop. Their mission was simple and straightforward: target the products and markets dominated by foreign makers. When China started its massive infrastructure and housing construction projects in the early 1990s, equipment supply was reliant on imports and thanks to their dominant positions, foreign makers were able to set prices substantially higher than in their home markets. Sany and many other similarly focused machinery companies offered their products at two thirds of the foreign brands' prices by focusing on assembly using imported parts. As China's construction boom continued, these companies continued to accumulate knowhow and expand their product range. After two decades of development, Sany's products are now only 10% cheaper than those of Komatsu, and more expensive than those of Korean makers. The construction machinery market is now dominated by Chinese firms, with foreign makers only present in the excavator segment. While China's heavy investment in infrastructure and housing has supported the export sector, it has also led to the creation of very competitive domestic construction machinery companies. Examples of these can be found in the thermal power generation equipment and wind turbine industries, where local makers have progressively expanded their scale and emerged, helped by the government's heavy investment, to become global players.

Going forward, as China invests heavily to improve energy efficiency - including the development of alternative energy and power grids - we will see some very competitive companies emerge in sectors such as nuclear power generation equipment, power grid related equipment (e.g. electricity transformer manufacturers) and alternative energy. ABB, which was a dominant player in China's large size electricity transformer market, has recently experienced strong competition from local rivals as these companies climb up the value chain and start offering products similar to those supplied by the previously dominant foreign makers.

As many internationally competitive companies will continue to emerge from China, we believe investing in Asia is no longer a matter of buying the market but instead a question of what companies to invest in. In other words, stock selection will become increasingly important. Having an investment fund of a size that allows for the necessary flexibility to invest in these emerging companies will increasingly add value as current blue chips, predominantly in the material and financial sectors, are maturing.

While Western central banks are concerned about deflation, the focus lies elsewhere in Asia. Recent accounts of Chinese consumers fighting to stock up on rice and edible oil at their local supermarkets remind us of similar occurrences in Japan in the 1970s, when housewives there were stocking up on toilet paper during the Oil Shock. The Chinese government's target to raise the minimum wage by 15% per annum over the next five years could be very good news for Japanese asset investors as China stops being a deflation exporter (by supplying the world for decades with low cost goods) and becomes an inflation exporter.

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Rising purchasing power of consumers and corporations will also lead to rising demand for high-end electronic goods and manufacturing equipment.

Exposure by Sector	Gross	Net	Exposure by Country	Gross	Net
Growth Sectors			HK & China	35%	20%
Energy & Materials	9%	-2%	Taiwan	3%	3%
Ind., Con. Discretionary & Tech	53%	49%	South Korea	0%	0%
Financial & Real Estate	29%	17%	Singapore	10%	2%
Defensive Sectors			EM ASEAN	0%	0%
Con. Staples & Healthcare	0%	0%	Japan	37%	32%
Telecom & Utilities	0%	0%	Australia	9%	5%
Futures	2%	-2%	Equities	93%	61%
Total	93%	61%			

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