

Pengana Asian Equities Fund (Onshore)

January 2011 Update



1 of 4

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\$15.0m
Minimum Initial Investment	A\$20,000	Application Price at Month End	A\$1.0094
Inception Date	01 July 2008 ^{2,4}	Redemption Price at Month End	A\$1.0044

Fund Commentary

Fund Performance (A\$, %, net of fees) ^{3,4}													
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2011	-1.1												-1.1
2010	-0.1	0.3	1.6	-0.3	-0.2	-0.4	-0.5	-2.6	-1.4	-0.4	1.1	1.3	-1.6%
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\$, %)													
2011	2.3												2.3
2010	-1.0	0.1	3.5	-0.5	1.8	-0.8	-2.3	0.0	-0.7	1.1	2.4	-0.4	3.1%
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.

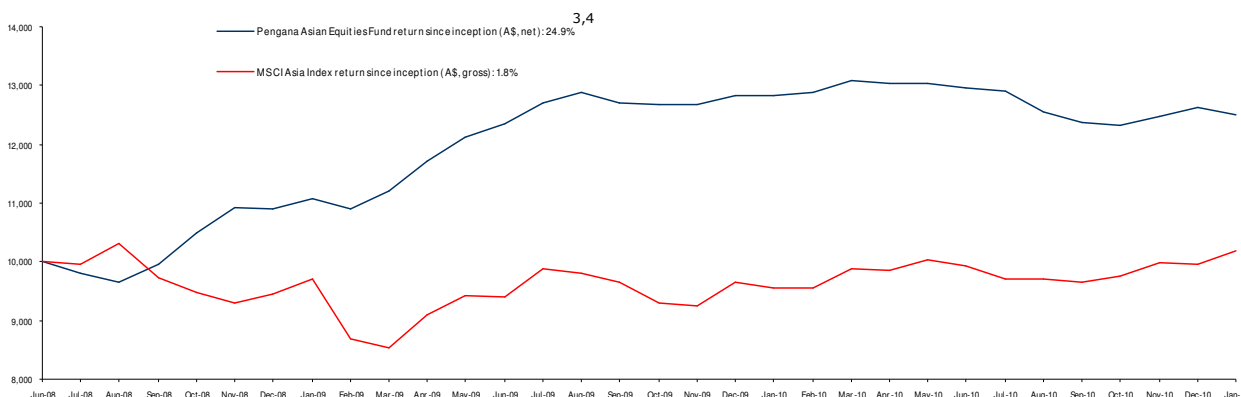
⁴ On 22 April 2009 the Fund expanded its investment universe from the Asia region to the Asia Pacific region.

Pengana Asian Equities Fund (Onshore)

January 2011 Update



2 of 4



	Fund Features since Inception ^{3,4}	Index Features since Inception
Annualized Return	9.0%	0.7%
Annualized Volatility	7.1%	11.6%
Sharpe Ratio ⁵	0.6	-0.4
Maximum Drawdown ⁶	-5.7%	-17.3%
Max. Recovery Period ⁷	3 months + ⁸	22 months + ⁸
Best Monthly Return	5.4%	6.6%
Worst Monthly Return	-2.6%	-10.5%
% of Up Months	48%	42%
Correlation to Index	0.19	

The Fund returned -1.1%³ net of fees for January 2011, compared to a 2.3% return from the MSCI Asia Index. Since inception in July 2008, the Fund has returned 9.0% p.a.^{3,4} net of fees, compared to the Index's 0.7% p.a. return.

The Fund's equity portfolio this month was affected by our long holdings in China/HK, particularly those in US-listed stocks such as financial services companies and selected IT companies, which generated a -3% return. On the other hand, holdings outside China produced strong performance, posting a 1% return for the month. While the equity portfolio returned -2%, the currency exposure generated 1% as the Australian Dollar depreciated against most Asian currencies during the month.

Some of the outperformers during the month were from IT services and internet media sectors, including Asia-Info Linkage, one of China's largest IT services company, and CyberAgent, Japan's largest internet advertisement company. During the month, we kept most of our exposure in China, with long holdings in sectors with limited exposure to the policy risks created by the Chinese government efforts to control property prices, such as solar power, IT hardware & software and toll road operators, while holding short positions in areas that are most affected by these initiatives, such as property developers and cement producers. While we are more selective about our short positions in property developers in China because

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

Pengana Asian Equities Fund (Onshore)

January 2011 Update



3 of 4

many of them - particularly large cap developers - are already at very distressed valuations, we think cement producers pose more downside risk, given falling cement prices and an anticipated decline in property transactions in coming months. While we remain positive on Japanese equities over the long term as the country is a major beneficiary of the return of inflation globally, we are cautious for the short term as technical indicators are showing increasing overbought signs. We increased our exposure in the food sector in Japan, in particular in companies with dominant market share domestically as they are the biggest beneficiaries of the recent rises in agricultural product prices. It is of interest to note that many Japanese companies are becoming more proactive in passing through rising costs and are more willing to press for price increases for their products - a clear shift in corporate culture. Bridgestone and Sumitomo Rubber, two of the largest tyre manufacturers in Japan, have recently announced an average 7-8% increase in their product prices due to rising costs of natural rubber. The question is whether this will lead to changes or even a breakdown of long-standing corporate practices in Japan, where companies, end customers and suppliers sacrifice profitability to accommodate each other's interests. If that is indeed the case, it could lead to a complete revitalisation of Corporate Japan, both domestically and globally. This will be one of the most important catalysts for an end to a two-decade long bear market in Japanese equities.

Top Five Performers	Bottom Five Performers
ASIAINFO-LINKAGE (China, Long)	CHINA REAL ESTATE INFORMATION (China, Long)
OCI CO (Korea, Long)	WYNN MACAU (China, Short)
CYBERAGENT (Japan, Long)	7 DAYS GROUP (China, Long)
ARA ASSET MANAGEMENT (Singapore, Long)	LENOVO GROUP (China, Long)
ELPIDA MEMORY (Japan, Long)	FUJI HEAVY (Japan, Short)

Market Outlook

Generally, equities in Asia remain unsettled and rotation among sectors and themes is becoming more frequent. Concerns about rising inflation in particular have dampened sentiment towards emerging economies and Asia ex-Japan has experienced sharp capital outflows from foreign investors year-to-date. After the global financial crisis in 2008, markets have been predominantly driven by macro events and themes. However, as the world economy is consolidating its recovery base, we believe 2011 is likely to see the return of bottom-up stock selection as the most efficient investment style. Fundamental research that identifies companies with rising competitiveness - the winners in the post-crisis new economy - will allow us to eliminate market noise and unearth opportunities with valuations substantially out of sync with their fundamentals because of short-term sentiment swings, up or down. This is the time to invest for the long term.

We have observed the emergence of this pattern among Chinese companies, particularly those listed in the US. While China's IT software and service sectors are one of the fastest growing industries, supported by government policies through tax incentives and R&D subsidies, there are limited opportunities for foreign investors to participate in this growth as there are a limited number of companies listed outside China. Most of these are listed in the US rather than Hong Kong. Normally, due to limited supply and strong fundamentals, these companies would be traded at a premium, in line with their peers listed in China or Hong Kong. However, the US-listed group, primarily those in the IT services and software sectors, are currently traded at substantial discounts. This is due to the very poor sentiment amongst US investors towards Chinese companies, as they are concerned China's rising property prices will lead to an economic hard landing. One such example is AsiaInfo-Linkage, one of China's largest IT services company and the supplier of network integration services to the country's top three telecom operators. It is now traded at 1.4x book value and 13x expected earnings, with annual growth of over 20% in the next three years. The company is a major beneficiary of rising capital investment by telecom operators who are moving more services online from the traditional retail network. In addition, the introduction of number portability will

Pengana Asian Equities Fund (Onshore)

January 2011 Update



PENGANA
CAPITAL

4 of 4

also force telecom operators to implement more attractive services, requiring more technological know-how and software packages from AsiaInfo-Linkage. In comparison, the market is paying 3x book value for Komatsu, Japan's largest construction machinery company, which is likely to lose its competitiveness to Chinese companies operating locally, and 2.5x book value for Anhui Conch, China's largest cement company, listed in Hong Kong, whose growth is entering a structurally mature stage.

We remain cautious on Chinese property, which is reflected in the short positions that we have in selected cement stocks. An expected fall in property transactions in coming months will likely weigh on cement prices, and pressure currently high valuations.

We continue to be positive on China's solar power sector and the IT software and service companies, which we think offer promising growth for the longer term and which are trading at attractive valuations. We are also increasing our Food exposure in Japan, as this sector will be a key beneficiary of rising inflation.

Exposure by Sector	Gross	Net	Exposure by Country	Gross	Net
Growth Sectors			HK & China	70%	34%
Energy & Materials	14%	2%	Taiwan	2%	2%
Ind., Con. Discretionary & Tech	79%	44%	South Korea	4%	0%
Financial & Real Estate	48%	-3%	Singapore	17%	5%
Defensive Sectors			EM ASEAN	0%	0%
Con. Staples & Healthcare	11%	11%	Japan	57%	8%
Telecom & Utilities	0%	0%	Australia	7%	1%
Futures	5%	-5%	Equities	157%	50%
Total	157%	50%			

Contact Details

Pengana Capital Limited • Level 12, 167 Macquarie 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 & Private Clients: Juliet Dunworth, +61 2 8524 9984, juliet.dunworth@pengana.com