

Pengana Asian Equities Fund (Onshore) Quarterly Update (June 2011)



1 of 4

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\$13.2m
Minimum Initial Investment	A\$20,000	Application Price at Month End	A\$0.9069
Inception Date	01 July 2008 ^{2,4}	Redemption Price at Month End	A\$0.9024

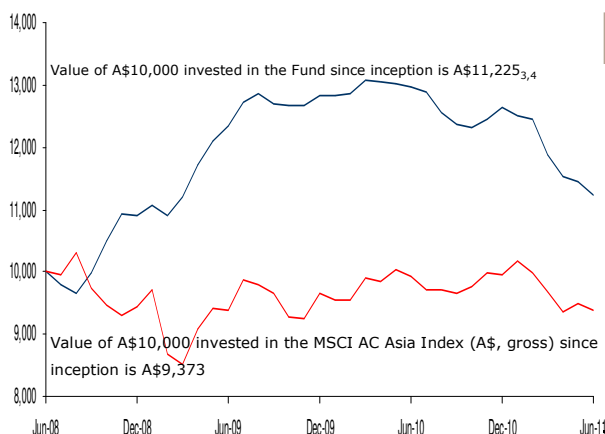
Fund Commentary

Fund Performance (A\$, %, net of fees) ^{3,4}

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2011	-1.1	-0.3	-4.6	-3.1	-0.5	-2.0							-11.1%
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	-2.0	-2.8	-3.4	1.2	-1.1							-5.8%
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%



Since Inception	Fund ^{3,4}	Index
Annualised Return	3.9%	-2.1%
Annualised Volatility	7.7%	11.1%
Sharpe Ratio ⁵	-0.1	-0.6
Maximum Drawdown ⁶	-14.2%	-17.3%
Max. Recovery Period ⁷	0 mths+ ⁸	27 mths+ ⁸
Best Monthly Return	5.4%	6.6%
Worst Monthly Return	-4.6%	-10.5%
% of Up Months	42%	39%
Correlation to Index	0.28	

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.

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) Quarterly Update (June 2011)



2 of 4

Outlook

Performance

Volatility continued in the region in the second quarter, as investors grappled with significant macro issues across the globe, particularly the following:

- Japan – ongoing impacts from the earthquake and tsunami;
- China – concerns over inflation and a potential hard landing;
- US – ongoing economic weakness and the end of QE2; and
- Europe – increased concerns over a Greek default.

Asian equity markets ex-Japan continued to experience dramatic swings in fund flows from international investors, with outflows in May causing a large sell off in HK/China. Conversely, Japan after trading sideways for most of the quarter, commenced a recovery in late June.

The Fund returned -5.5% for the quarter net of fees, compared to -3.3% by the MSCI Asia including Japan Index. The continued appreciation of the Australian Dollar, which peaked at 1.10 in May, detracted from the Fund's absolute performance. Despite rising volatility in regional financial markets, the Australian Dollar continued to appreciate against the US Dollar and most regional currencies.

The Fund's equity portfolio returned -2.4% in local currency terms, compared to the -1.7% by the Index. The underperformance was to the result of a number of China positions, particularly those listed in US (see commentary below). The currency exposure returned -2.9% relative to the -1.6% of the Index, due to the strong appreciation in the Japanese yen in April, to which the Fund had a low exposure.

Change to the portfolio

Having started the quarter relatively bullish on China, the Fund's HK/China positions performed well in April. However, the quarter saw concerns increase regarding Chinese inflation. Inflation fears began to escalate with CPI rising from 5.3% in April to 6.4% in June, as compared to 3.1% last May. To combat this, the Chinese government continued to tighten monetary supply through both interest rate rises and the reserve rate requirement (RRR). Separately, accounting irregularities were found at a small number of US listed Chinese companies, which impacted on sentiment towards Chinese companies.

The Fund continues to hold a significant position in HK/ China, reflecting a view that the monetary tightening cycle is coming to an end. HK/China exposure is focussed on the consumer, services, technology and the healthcare sectors, where we see structural growth.

During the quarter we increased exposure to the healthcare sector. We expect that government regulation to control excessive prices will induce sector-wide consolidation, leading to improved manufacturing methods and greater pricing power. We focus our investments on companies with market leading positioning, M&A capabilities (cash and experience), and limited exposure to regulatory risk. We also continued to invest in Chinese technology and internet, which are benefitting from strong consumption growth.

During the quarter, we added to our exposure on China Shineway, a traditional Chinese medicine (TCM) manufacturer. Shineway is the largest TCM manufacturer in China, with a broad range of TCM products. With cash on hand for M&A, and an industry leading cost structure, we believe that Shineway can fill the role of industry consolidator that the government is looking for. Also with substantial capex plans for its manufacturing process, we believe that Shineway can grow sales and profits substantially over the next 5

Pengana Asian Equities Fund (Onshore) Quarterly Update (June 2011)



3 of 4

years. Recent concerns over the drug tendering process in China and government price cuts have been overdone, and Shineway now trades on a FY11 price/earnings of approximately 11x.

Conversely, in China the portfolio remains positioned away from traditional fixed asset investment growth plays such as cement and China property developers. Whilst the China property developers remain on low historical price/earnings multiples, the Fund believes that government controls will remain and developers will continue to cut prices significantly into 2H11 in order to maintain volumes. So notwithstanding potentially robust turnover in 2H11, margins and earnings quality will begin to deteriorate

In Japan, 2Q11 saw a rebound in the market as supply chains began to recover from the disruptions caused by the earthquake. Power shortages continue, and consumers are being forced to adopt lifestyle changes as Tokyo deals with a summer of power restrictions. We focussed most of our Japan exposure for the quarter on exporters, particularly the technology sector, and also on consumer stocks that are beneficiaries of the changes in consumer habits.

We also began to increase exposure to the real estate sector reflecting a number of underlying themes. Japanese banks have begun to increase lending to real estate, on what appears to be a concerted effort by the Bank of Japan to restart direct real estate markets. Furthermore, JREITs, who continue to be supported by the BoJ asset purchase programme, are expected to recommence purchasing real estate assets. Liquidity in the commercial real estate markets should drive the 30%+ discounts to net asset values that currently prevail in Japanese real estate developers to narrow. Furthermore, take up rates on condo and house sales have been robust, with the limiting factor appearing to be supply. This too, will assist the profitability of the real estate developers.

Korea was relatively flat during the quarter, but experienced significant volatility. Strong performance was derived from a short on OCI Co Ltd, a material company for solar cells.

Top Five Performers	Bottom Five Performers
OCI CO LTD (Korea, Short)	NINTENDO (Japan, Long)
WUXI PHARMATECH (China, Long)	ANGANG STEEL (China, Long)
KOMATSU (Japan, Short)	SINO-AMERICAN (Taiwan, Long)
EVERGRANDE (China, Long)	CHINA SHINEWAY (China, Long)
SOLARGIGA (China, Long)	ASIAINFO-LINKAGE (China, Long)

Exposure by Sector	Long	Short	Net	Exposure by Country	Long	Short	Net
Growth Sectors				HK & China	34%	-9%	25%
Energy & Materials	9%	-7%	2%	Taiwan	2%	0%	2%
Ind., Con. Discretionary & Tech	44%	-17%	27%	South Korea	2%	-4%	-2%
Financial & Real Estate	9%	-8%	1%	Singapore	5%	0%	5%
Defensive Sectors				EM ASEAN	0%	0%	0%
Con. Staples & Healthcare	10%	0%	10%	Japan	26%	-21%	5%
Telecom & Utilities	4%	0%	4%	Australia	8%	-4%	4%
Futures	0%	-6%	-6%	Equities	77%	-39%	38%
Total	77%	-39%	38%				

Outlook

Pengana Capital Ltd (ABN 30 103 800 568, Australian financial services licence number 226566) is the issuer of units in the Pengana Asian Equities Fund (the "Fund"). A product disclosure statement for the Fund is available and can be obtained from our distribution team. A person should obtain a copy of the product disclosure statement and should consider the product disclosure statement 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 possible delays in repayment, and loss of income and principal invested. Past performance is not a reliable indicator of future performance.

Pengana Asian Equities Fund (Onshore) Quarterly Update (June 2011)



4 of 4

Whilst we remain positive from a valuation perspective on key markets, macro issues will continue to dominate investors thinking over the near term as the various issues across the globe prevail or are resolved.

Global concerns regarding the US and Europe will continue into 2H11. The US continues to grapple with the end of QE2, and the potential for another round of easing. As this situation evolves, commodity and equity markets will continue to look for signals from the US Federal Reserve and move accordingly. Given the impact of oil prices on business costs and consumer sentiment, it remains a key piece in the US economic recovery. Adopting QE3 measures that drive up oil prices will be self defeating. The US also is grappling with the raising of its debt ceiling, though we expect this to be resolved before the August 2 deadline.

Concerns remain regarding the European debt crisis and the risks of contagion. European banks require more capital, and we expect will continue to do so. We remain wary of banks in the region as well.

The outlook in Asia is more positive. In China, inflation is abating and the liquidity restrictions the government has put in place are taking effect. As the government continues to transition the economy from "old China" fixed asset investment driven growth to one driven by consumption and the service sector, it will continue to tread a fine line. Whilst, we expect monetary policy to begin to ease in 2H11, it will be directed at the service sector and SME's, with controls continuing on the property sector to avoid this becoming the beneficiary of increased liquidity. We continue to accumulate companies in China with structural growth, focussing on companies with attractive valuations due to current poor sentiment.

The Japanese economy is showing more signs of life and 2H11 should prove to be a strong market. As we have previously commented, the movement of the Yen will be a key determinant of its equity market's performance going forward and we remain cautiously positive while monitoring currency movements closely. Following the Great Hanshin earthquake in January 1995, Japanese equity markets corrected by 20% in the first four months as a result of the 20% appreciation of the Yen against the US Dollar in the aftermath of the disaster. However, by the time of the one year anniversary of the event, Japanese equity markets had rallied by over 50%.

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