

Pengana Australian Market Neutral Fund – December 2011 Update



1 of 4

Fund Description

The Pengana Australian Market Neutral Fund ("Fund") aims to provide a net annualised return of 5-10% over cash¹, with a risk target of 8-10%. The Fund holds equal weights in long and short positions with the objective of providing investors with a return series that is not tied to the movement of the overall market². The Fund employs a fundamentally based quantitative investment approach to stock selection which, when combined with a rigorous portfolio construction process, provides portfolio diversification with the aim of not sacrificing return. The combination of portfolio risk management with low exposure to market returns promotes consistent performance and attractive risk adjusted returns.

Fund Features

Style	Market Neutral	Management Fees³ Monthly	1.00% p.a. of the NAV
Investors	Wholesale investors only	Performance Fees³ Half Yearly	20% of any increase in the NAV subject to the RBA cash rate target and high water mark.
Minimum Initial Investment	A\$50,000	Application Price at Month End	A\$1.0984
Inception Date⁴	9 September 2008	Redemption Price at Month End	A\$1.0940
AUM at Month End	A\$2.44m		

Fund Commentary

Fund Performance (A\$, %, net of fees)^{4,5}													
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2011	2.1	1.1	2.0	-2.8	-1.3	1.9	2.4	3.4	-0.8	0.1	6.2	1.9	17.18
2010	1.4	-1.1	0.1	1.3	1.3	1.8	0.9	-1.1	4.5	2.5	-1.9	2.4	12.80
2009	-2.7	0.2	0.9	-0.5	1.0	1.1	1.0	-2.4	1.4	4.9	1.1	0.8	6.64
2008									0.8	1.7	2.6	-1.7	3.44

	1 Month	3 Months	FYTD	1 Year	3 Years (p.a.)	Since Inception (p.a.)
Fund ^{4,5}	1.9	8.4	13.8	17.2	12.1	12.0
S&P/ASX 300(Accum)	-1.4	2.1	-9.8	-11.2	7.6	-2.4
RBA Cash Rate	0.4	1.1	2.3	4.8	4.1	4.3

¹ The average of the daily RBA cash rate target. This is not intended to be a forecast but merely an indication of what the Fund aims to achieve over the medium to long term. The Fund may not be successful in meeting this objective. Returns are not guaranteed.

² The Fund also aims to minimise exposures to sectors (e.g., financials, resources, or health care) and size (i.e., large cap, mid cap, or small cap)

³ All fees are plus GST net of reduced input tax credits. Please refer to the Information Memorandum for a more detailed explanation.

⁴ Internal Fund seeded by Pengana Capital on 9 September 2008. Fund offered externally in July 2010.

⁵ The performance figures are quoted inclusive of fees and expenses. Past performance is not a reliable indicator of future performance. The value of investments can go up and down.

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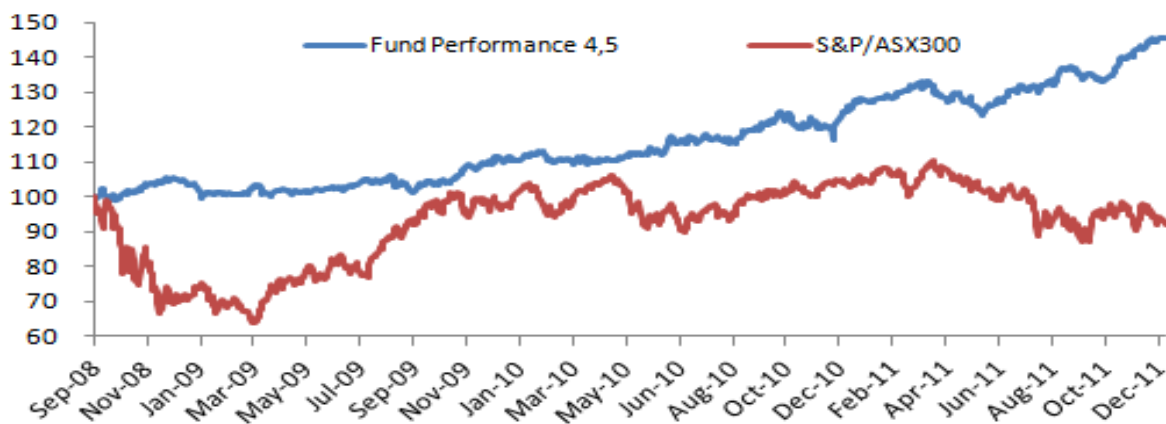
2 of 4

The Fund returned 1.9%⁵ on a net basis over the month of December 2011, while the S&P/ASX 300 lost 1.4% on an accumulation basis. The total net performance of the Fund since inception (September 2008) is 12.0%^{4,5} per annum. This performance has been achieved with a standard deviation of 6.9% p.a. An Information Ratio (risk adjusted return measure) of 1.7 was achieved over this period. Two of our largest long positions during the month were Iluka Resources (ILU) and Bandanna Energy (BND), while two of our largest short positions were Aquarius Platinum (AQP) and MAp Group (MAP), now named Sydney Airport (SYD).

Fund Features (Sep 2008 to December 2011) ^{4,5}	
Cumulative Return	45.8%
Annualised Return	12.0%
Annualised Volatility	6.9%
Downside Deviation	1.1%
Information Ratio	1.7
Sharpe Ratio	1.1
Sortino Ratio	7.2
Max Drawdown	-4.5%
Positive Months	75%
Average Net Exposure	0.3%
Average Weekly Return	0.3%
Correlation ASX 300	-0.1
Beta	-0.04

The top and bottom five stocks contributing to performance over the month:

Top 5 Contributors		Bottom 5 Contributors	
Stock	Holding	Stock	Holding
Nexus Energy	Short	Medusa Mining	Long
Wotif.com	Long	Flight Centre	Long
Kathmandu Holdings	Short	Myer Holdings	Long
Intrepid Mines	Short	Transpacific Industries Group	Short
Nufarm	Short	Cockatoo Coal	Long



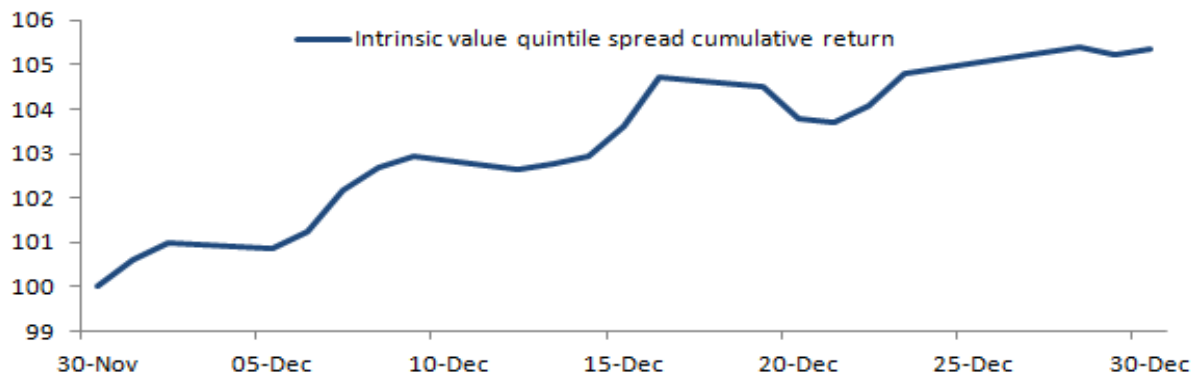
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Investment Themes

The Australian market once again underperformed major developed markets in December with the S&P/ASX 300 finishing the month down 1.4%, while the S&P 500 gained 1.0%, the FTSE 100 closed the month up 1.3% and the Nikkei 225 eked out a gain of 0.2%. Risk aversion remained a focus of investors and the traditionally defensive sectors were once again the stars in the Australian market with Telecoms (+5.1%), Utilities (+3.5%), Healthcare (+1.9%) and Banks(+0.9%) the only sectors to make positive returns in December. The worst performing sectors over the month were Gold (-13.0%), Energy (-4.0%), Metals & Mining (-4.5%) and Consumer Discretionary (-3.8%). The Australian small caps (-4.3%) underperformed the large caps (-1.2%) for the second consecutive month.



Value was the standout investment theme for the month of December. The performance of intrinsic value is shown in the chart above. Our value measure looks at the intrinsic value of a company as well as the value of a company relative to its sector peers and the market. The relative value of a company is assessed by examining a number of traditional valuation metrics such as P/E ratio, EV/EBITDA and Price/Book value ratio.

The performance of our 24 individual alphas, aggregated across four investment themes, is shown below:

Investment Theme Performance	
Earnings Revisions	0.9%
Value	3.3%
Quality	0.9%
Momentum	0.9%

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Pengana Australian Market Neutral Fund – December 2011 Update



4 of 4

Market Commentary

The ongoing Eurozone sovereign debt crisis continued to dominate global market sentiment in December with fears of a possible break-up of the Eurozone arising. The European Central Bank cut interest rates by 25bp for the second consecutive month and increased liquidity across the Eurozone through the offer of unlimited three-year bank funding. A summit of EU leaders agreed upon new measures to curb government spending and provide additional funding support.

The RBA cut interest rates for the second consecutive month in December, to bring the official cash rate to 4.25%; with the consensus view now being that more rate cuts will follow in 2012. The precarious outlook for the Australian domestic economy was highlighted by a number of profit warnings in the fragile consumer discretionary sector: JB Hi Fi, Billabong and Kathmandu all lowered their profit guidance. Corporate activity continued to remain strong in the increasingly cheap resources sector with Aston Resources and Whitehaven Coal announcing their intentions to merge and Yanzhou Coal Mining of China making a bid for Gloucester Coal. The AUD was fairly steady, given the RBA rate cut and global market volatility, closing the month down just 0.7% against the USD.

Gold failed to live up to its safe haven status amid ongoing sovereign debt concerns and global growth uncertainties, with the spot price for the precious metal tumbling 7.8% in December, reaching lows not seen since July.

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