

# Pengana Asia Special Events Fund Onshore December 2011



## Fund Description

The Pengana Asia Special Events Fund (the "Fund") fully invests in the A\$ Class of the Pengana Asia Special Events (Offshore) Fund ("the Offshore Fund"). The Offshore Fund employs an event-driven investment strategy that seeks to exploit the mispricing of securities of companies involved in corporate transactions within the Asian (including Japan and Australia) region. The Offshore Fund invests in events such as mergers and acquisitions, corporate reorganisations, capital management initiatives, index changes, earnings surprises, equity-capital structure arbitrage, holding company arbitrage and directors' trades. Where appropriate, investments in these situations will be combined with the systematic hedging of broad market risk. The Fund aims to provide investors with consistently positive annual returns irrespective of Asian stock market conditions.

## Fund Features

<b>Style</b>	Asia-Pacific event-driven	<b>Management Fees</b> <sup>1</sup>	1.50% p.a. (charged at the Offshore Fund level)
<b>Comparative Benchmark</b>	-FTSE Asia Pacific Index -HFR Event Driven Index	<b>Performance Fees</b> <sup>1</sup> (annually)	20.5% p.a. of any increase in the NAV greater than the hurdle (the average of the daily RBA cash rate for the relevant month)
<b>Investors</b>	Retail and Wholesale	<b>AUM (Fund/Strategy)</b>	A\$15.8 Million/US\$52.4 Million
<b>Minimum Initial Investment</b>	A\$20,000	<b>Identification Codes</b>	APIR: PCL0004AU ARSN: 145 116 810
<b>Inception Date Fund/Strategy</b>	1 <sup>st</sup> Sep 2010 / 1 <sup>st</sup> Oct 2008	<b>A\$ Price at Month End</b>	A\$1.0960

## Performance Summary Onshore Fund A\$ share class (net of fees)<sup>2</sup>

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
<b>2011</b>	0.8%	0.9%	0.2%	1.1%	1.3%	0.5%	1.7%	-0.4%	-1.1%	1.5%	0.6%	1.3%	<b>8.8%</b>
<b>2010</b>									2.8%	1.3%	0.9%	-0.1%	<b>5.0%</b>

The Fund has been operating since 1 September 2010. To give a longer term view of our performance in this asset class we have included below the since inception returns for the Australian dollar denominated class of the Offshore Fund (into which the Fund is fully invested) adjusted to reflect the different fees which apply to the Fund.

## Performance Summary Offshore Fund A\$ share class (net of fees)<sup>2</sup>

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
<b>2010</b>	1.3%	-1.0%	0.9%	1.5%	-2.3%	1.0%	1.0%	1.8%					<b>4.2%</b>
<b>2009</b>	0.7%	1.8%	0.0%	2.3%	4.4%	0.7%	1.4%	0.7%	-1.0%	0.5%	1.9%	1.1%	<b>15.4%</b>
<b>2008</b>										11.8%	2.1%	-0.7%	<b>13.4%</b>

## Performance Summary and Risk Statistics Offshore A\$ share class (net of fees)<sup>3</sup>

<b>1 month return</b> <sup>3</sup>	<b>1.3%</b>	<b>Volatility</b>	<b>6.1%</b>
<b>3 month return</b> <sup>3</sup>	<b>3.4%</b>	<b>Sharpe Ratio: (ØRfr=4.25%)</b>	<b>1.7</b>
<b>6 month return</b> <sup>3</sup>	<b>3.6%</b>	<b>Risk Reward Ratio:</b>	<b>2.4</b>
<b>1 year return</b> <sup>3</sup>	<b>8.8%</b>	<b>Max drawdown</b>	<b>-2.3%</b>
<b>Since inception p.a.</b> <sup>3</sup> (1 Oct 2008)	<b>14.6%</b>	<b>Positive months</b>	<b>80%</b>
		<b>Beta</b> <sup>4</sup>	<b>0.11</b>

<sup>1</sup> Please refer to the Product Disclosure Statement (PDS) for a more detailed explanation.

<sup>2</sup> Total return performance figures are shown after all fees and charges. Past performance is not a reliable indicator of future performance. The value of investments can go up and down.

<sup>3</sup> This performance figure reflects the returns of the Pengana Asia Special Events Fund (Onshore) ("Fund") from inception on 1 September 2010 to the current date and, for the period prior to 1 September 2010, the since inception returns for the Australian dollar denominated shares issued by the Pengana Asia Special Events (Offshore) Fund ("Offshore Fund") adjusted to reflect the different fees which apply to the Fund. The strategy inception date is 1 October 2008. The Fund is fully invested into the Offshore Fund. Total return performance figures are shown after all fees and charges. Past performance is not a reliable indicator of future performance.

<sup>4</sup> FTSE Asia Pacific Total Return Index

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## Fund Commentary

The Fund finished up 1.3%<sup>1</sup> for the month of December 2011, compared to the FTSE Asia Pacific Index which closed +0.2% and the HFR Event Driven Index which closed -0.6%. This brings the yearly performance of 2011 for the Fund to +8.8%<sup>2</sup>, significantly outperforming its peers and the FTSE Asia Pacific Index which closed sharply down -17.1%. The tsunami tragedy in Japan, S&P downgrade of US debt, concerns over slowing growth in China and the ongoing European sovereign debt crisis were the key events that caused general market volatility to surge during the course of the year. The key challenge for the Fund was to preserve capital for our investors during periods of extreme dislocation, which we observed several times in 2011.

Net exposure for the month of December averaged 3% while gross exposure reduced significantly to 94% as certain M&A situations successfully completed and were removed from the book. December continued to remain a fairly active month in the M&A space and the Fund looks to deploy capital towards situations offering favourable risk reward profile.

## M&A Events

The M&A sub strategy was the biggest contributor to the fall in gross exposure as the Fund was paid for successful M&A situations which were taken off the book. Significant positions closed were Coal & Allied (CNA AU), Gold One (GDO AU), Plus Expressways (PLUS MK), Hirofako Holdings (HIRO MK) and Hsu Fu Chi (HFCI SP). Collectively, these contributed towards ~45% in gross exposure. The Fund initiated new positions in certain hostile transactions announced during the month, specifically Hastings Diversified (HDF AU) and China Gas (384 HK). Hastings received a hostile approach from major shareholder APA Group (APA AU) to integrate the two businesses through a scrip and cash offer. The offer was promptly rejected by the Hastings board as inadequate. The Fund initiated a long position in Hastings on the back of expectations that APA will return with a higher offer to engage Hastings' board. Our expectations are based on the strategic fit of this merger for APA and the disposal of the Allgas stake which has raised capital for APA to increase the cash consideration. Downside in Hastings is limited due to the lack of control premium offered to shareholders, making risk reward extremely favourable. In an unusual development, the Fund also initiated a long position in a hostile transaction in Hong Kong involving China Gas (384 HK). Apart from the fact that hostile transactions are rare outside Australia, one involving a Chinese State Owned Enterprise as the acquirer makes this situation even more peculiar. After a series of corporate governance issues, China Gas was approached by a consortium involving ENN Energy (2688 HK) and Sinopec (338 HK) for a change of control transaction through a tender offer at HKD 3.50/share. The bid was described as hostile by the China Gas board and rejected on valuation grounds. The bid has been priced at 15x forward earnings, which is in line with industry valuations but does not imply any control premium. Major shareholders in China Gas are also unlikely to accept into the current offer which makes the 50% minimum condition difficult to achieve in present form. We do not anticipate any 3rd party counter offer due to the presence of a Chinese SOE in the bidding consortium and expect the current offer to be bumped slightly to attain control. We also note that strategic shareholders (outside of the arbitrage community) have been increasing their stake in China Gas, making it more probable that the offer in current form is unlikely to succeed. The Fund experienced a deal break during the month involving CSG Limited (CSV AU), negatively impacting performance by 30bps. The non-binding approach from a third party did not translate into a firm offer after due diligence was conducted due to a price expectation gap between buyer and seller. Major shareholders of CSG have not voiced any concern over the board's disagreement to an offer not deemed as full value, and we have therefore removed this position from the portfolio. On a positive note, our long position in SMB United (SMP SP) received a superior proposal from Osaki Electric (6644 JT) of S\$0.40/share, trumping Boer Power (1685 HK) current offer by 25%. The Fund had initiated a long position after the hostile bid by Boer for SMB shares was rejected by the board over valuation. SMB had engaged Lazard as a defence advisor to seek alternative offers which resulted in Osaki's superior offer. Although Osaki has secured irrevocable undertakings from the major shareholders, we do not completely rule out the probability of Boer returning with a higher offer. On other positive developments, Murchison Metals (MMX AU) successfully settled a litigation claim with Chameleon Mining (CHM AU) which was a condition to the asset disposal to Mitsubishi, significantly de-risking the transaction. Another inbound M&A deal into China was approved by MOFCOM, the acquisition of International Mining Machinery (1683 HK) by Joy Global (JOY US). We note that this transaction was approved within the phase 2 process, which bodes well for other MOFCOM related live deals.

## Stubs

No significant changes were made to the stub sub-strategy and gross exposure was maintained at 15% during the month. New positions implemented during the month were Wheelock (20 HK) against Wharf (4 HK) which traded at the lowest discount to NAV for the year. We attribute this anomaly to poor market liquidity into year-end which should re-rate once liquidity returns into the New Year.

## Directional Strategies (Earnings Surprise & Capital Management)

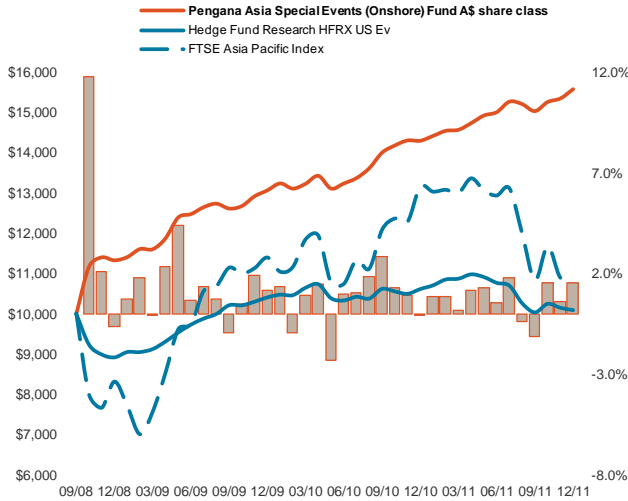
The Fund initiated a short position in ENN Energy (2688 HK) on the back of the bid for China Gas (384 HK). We view this bid negatively on the back of our expectations that ENN will be forced to raise their offer for China Gas and stretch the balance sheet of the company. At current gearing levels, ENN will have to tap the equities market to raise capital for the transaction. Presently, ENN also faces the risk of downgrades from the rating agencies creating more overhangs for the stock. We have hedged this short position with a highly correlated industry peer.

The Fund was inactive in the earnings sub-strategy during the month due to a lack of announced activity. Collectively, the gross exposure in the directional book averaged ~14% during the month.

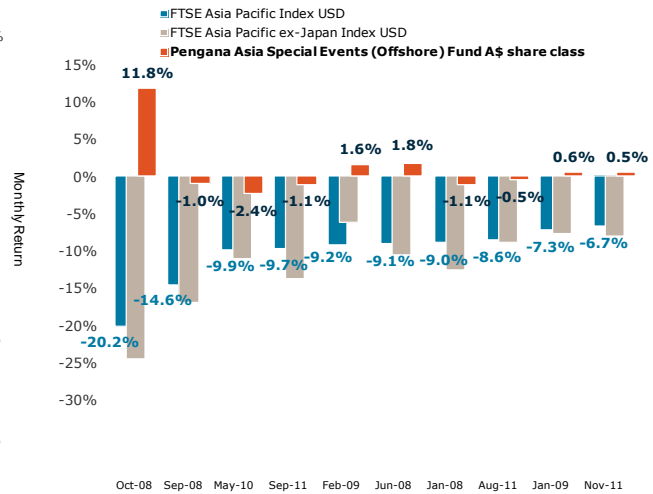
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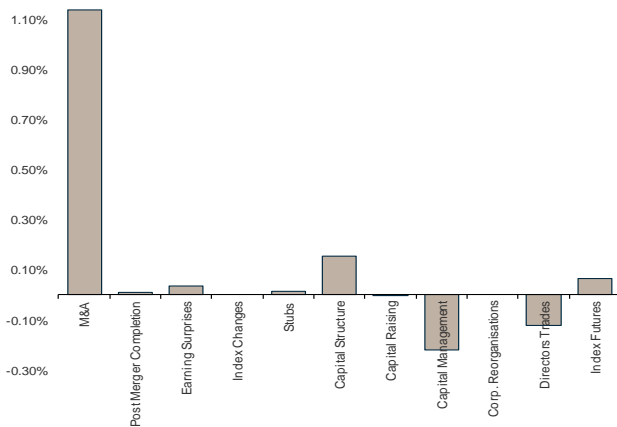
## Monthly Returns Since Inception <sup>3</sup>



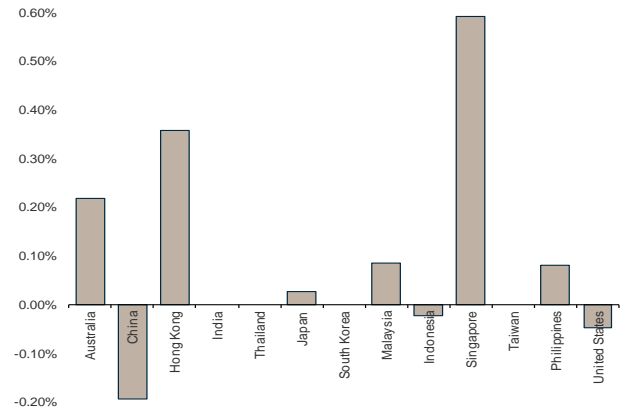
## Comparison During Down Months <sup>3</sup>



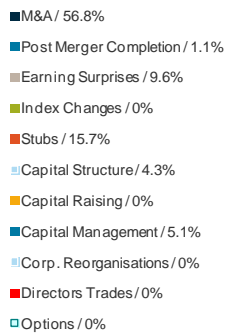
## Monthly Contribution by Strategy



## Monthly Contribution by Region



## Gross Exposure by Strategy



## Exposure by Region as a Percentage of NAV

Country	Gross	Adj Gross*	Net	Adj Net*
Australia	22.7%	6.5%	19.5%	2.3%
China	4.8%	2.8%	-0.8%	-2.2%
Hong Kong	21.0%	14.2%	7.8%	3.3%
India	0.0%	0.0%	0.0%	0.0%
Indonesia	0.9%	0.9%	0.9%	1.0%
Japan	17.0%	5.5%	9.8%	-0.6%
Korea	0.0%	0.0%	0.0%	0.0%
Malaysia	1.3%	0.5%	1.3%	0.6%
New Zealand	0.0%	0.0%	0.0%	0.0%
Singapore	16.4%	7.0%	8.9%	-0.8%
Philippines	8.6%	0.3%	8.6%	0.2%
Taiwan	0.0%	0.0%	0.0%	0.0%
Thailand	0.0%	0.0%	0.0%	0.0%
United States	1.2%	1.2%	-0.2%	-0.5%
<b>Total</b>	<b>93.9%</b>	<b>38.9%</b>	<b>55.8%</b>	<b>3.3%</b>

\* Excluding M&A and capital structure arbitrage and not beta adjusted

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