

Pengana Asian Equities Fund Monthly Update (January 2012)



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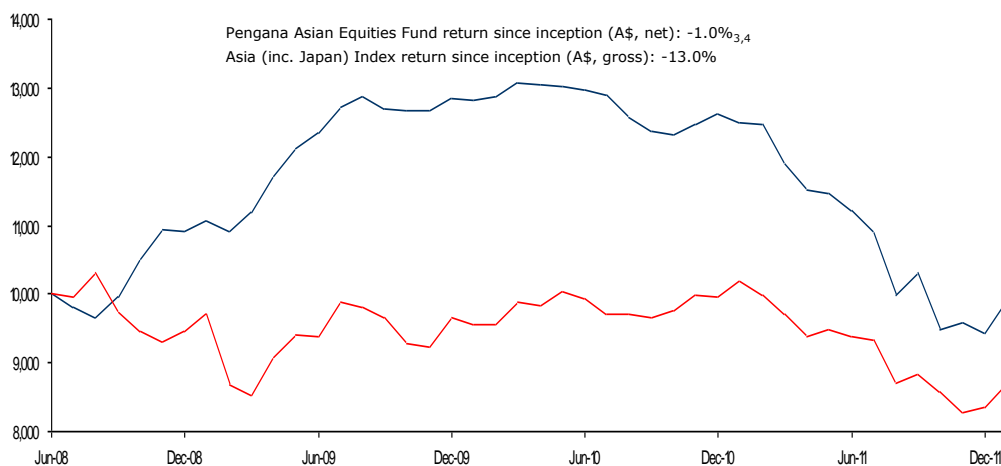
Fund Features

Style	Long/Short Equity	Management Fees ¹ (monthly)	1.54% p.a.
Comparative Benchmark	Asia (inc. Japan) 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\$13.3m
Minimum Initial Investment	A\$20,000	Application Price at Month End	A\$0.7998
Inception Date	01 July 2008 ^{2,4}	Redemption Price at Month End	A\$0.7958

Fund Commentary

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

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2012	5.1												5.1%
2011	-1.1	-0.3	-4.6	-3.1	-0.5	-2.0	-3.0	-8.2	3.2	-8.0	1.0	-1.7	-25.4%
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%
Asia (inc. Japan) Index (A\$, %)													
2012	4.0												4.0%
2011	2.3	-2.0	-2.8	-3.4	1.2	-1.1	-0.4	-6.8	1.5	-2.9	-3.5	0.9	-15.9%
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.

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Performance

The Fund returned 5.1%³ net of fees for the month of January 2012, compared to 4.0% by the Asia (inc. Japan) Index. Since inception in July 2008, the Fund has returned -0.3%³ per annum net of fees, compared to -3.8% by the Index.

Global financial markets recovered strongly during the month, following positive economic data from the US and better than expected bond auctions by the Italian and Spanish governments, which issued new bonds at a much lower cost than in December. The European Central Bank's (ECB) 3-year Long Term Refinancing Operation (LTRO), which extended 489 billion Euro (A\$611 billion) of three year maturity loans to European banks in December (the equivalent of 60% of the banks' refinancing needs for the year), has substantially reduced refinancing risk for European banks and thus boosted investor sentiment. Expectations that the ECB will extend a much larger amount of loans at the second batch of the operation in late February have further increased market confidence. In equities, we have witnessed a reversal of performance, with last year's underperformers, particularly cyclical sectors like materials and technology, substantially outperforming last year's winners, such as defensive telecom/utilities and consumer goods. Seeking beta was the dominant theme this month.

The Fund's focus on companies with attractive valuations and long-term structural growth with exposure to undervalued China industrials and regional alternative energy stocks contributed to this month's return. Exposure in financials, including Japanese real estate and Chinese logistics companies and investment banks, also generated substantial returns for the equity portfolio. The Fund's equity portfolio outperformed the Index returning 6.4%³ in local currency terms, compared to 6.2% by the Index. With only 50% net exposure, the outperformance confirmed the Fund's stock selection expertise and our investment thesis to focus on companies that will benefit from China's economic transformation and financial reform. Chinese healthcare, leisure (e.g. a budget hotel chain) and alternative energy stocks were among the top performers. This also highlights the importance of stock selection as an investment driver to generate sustainable returns without taking excessive market risks.

The Fund's currency exposure returned -1.1%³, compared to -2.0% by the Index as the Australian Dollar appreciated against most of the regional currencies. The outperformance was due to the Fund's relatively low exposure in US Dollar and the Japanese Yen compared to the Index, which is consistent with our risk management process of minimising currency exposure risk during an up market.

Change to the Portfolio

Despite this month's strong performance, many companies in China, Japan and Taiwan are still traded at very attractive valuations, with many Chinese industrials and solar tech companies, despite their competitiveness and scale, trading at a substantial discount to their book value. However, with global financial markets experiencing such a sharp run-up in a short period of time, caution is required in the near term. We took some profit in our financial exposure across the region, as well as in Chinese industrials and healthcare stocks such as Ping An Insurance, China's second largest insurance group, and Wuxi Pharmatech, a US-listed China healthcare company. To hedge short-term volatility, we initiated short positions in companies that lack sound fundamentals but have seen strong appreciation in the current beta-seeking market rally, such as Chinese property stocks.

Top Five Performers	Bottom Five Performers
GCL-POLY ENERGY (China Solar, Long)	ELPIDA MEMORY (Japan IT, Long)
7 DAYS GROUP (China Hotels, Long)	CNBM (China Cement, Short)
PING AN (China Insurance, Long)	XINGDA (China Industrials, Long)
WUXI PHARMA (China Health Care, Long)	CHINA RES LAND (China Property, Short)
CHONGQING MACHINERY (China Industrials, Long)	SANDS CHINA (Macau Gaming, Short)

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Investment Outlook

We are currently seeing very accommodative monetary policies worldwide, with the US Federal Reserve planning to hold its interest rates at current 0-0.25% levels until 2014 and the ECB conducting a very aggressive lending program. As a result, the risk premium applied to many risk assets, currently heightened on concerns about the European sovereign debt crisis, are likely to be adjusted downwards. We believe Asian equities, particularly China and Japan, offer the best risk/reward profile for international equity investors. As discussed in our last quarterly update, the Chinese government's proactive policy to improve transparency and attract institutional investors to its equity market will stabilise and then boost investor confidence going forward. The Chinese equity market's volatility is often attributed to the lack of institutional investor participation, who currently own just 15% of total outstanding stock.

The focus for Japan this year will be on its currency. The Yen has been appreciating against the US Dollar for over 40 years since the 1970s, but this may now come to an end. In 2011, for the first time in 30 years, Japan produced a trade deficit due to falling exports and rising import of petroleum products after the Tohoku Earthquake in March. While it may be too early to predict Japan's trade balance has turned to a deficit on an ongoing basis, the demographic trend of an aging society withdrawing its savings to fund daily living costs indicates Japan is structurally entering a current account deficit phase, with spending outstripping savings, in a reversal of the trend seen in previous decades. This will certainly be Yen-negative and potentially also be negative for government bonds as local investors can no longer afford to buy and support government debt. Yen weakness will improve Japanese exporters' competitiveness and more importantly lead to some degree of inflation, and thus put an end to two decades of deflation. We are monitoring carefully as to whether 2012 will be marked as the year we see an end to the 40-year Yen appreciation, 30-year government bond rally and 20-year equity bear market in Japan.

Exposure by Sector	Long	Short	Net	Exposure by Country	Long	Short	Net
Energy & Materials	8%	-1%	7%	Greater China	32%	-17%	15%
Financials (inc. Real Estate)	15%	-5%	10%	<i>HK & China</i>	27%	-17%	10%
Industrials	9%	0%	9%	<i>Taiwan</i>	5%	0%	5%
Tech	22%	-4%	18%	South Korea	2%	-3%	-1%
Consumer	5%	-7%	-2%	Singapore	4%	0%	4%
Healthcare	4%	-3%	1%	EM ASEAN	0%	-2%	-2%
Telecom & Utilities	0%	0%	0%	Japan	21%	-4%	17%
Futures	0%	-6%	-6%	Australia	3%	0%	3%
Total Equities	63%	-27%	36%	Total Equities	63%	-27%	36%

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