

# Pengana Absolute Return Asia Pacific Fund

## October 2016 Monthly Update

### Investment Objective

To generate a net annualised return greater than 5% above the RBA's Cash Rate Target over a 3 to 5 year period with low volatility and low correlation to Asian security markets.

### Investment Process

The Fund employs an event-driven investment strategy that seeks to exploit the mispricing of securities of companies listed on Asia Pacific stock markets (including Australia) that are undergoing corporate transactions. The investment process aims to control risk by maintaining low exposure to relative market movements and other broad risk factors.

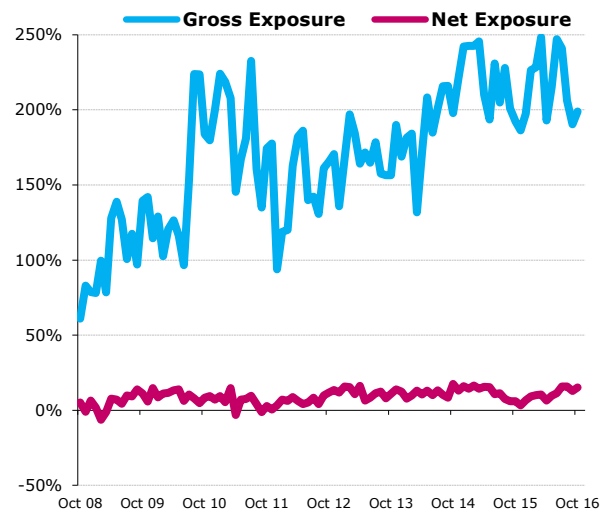
### Fund Facts

<b>Senior Portfolio Managers</b>	Antonio Meroni and Vikas Kumra	<b>Inception date</b>	Fund: September 2010 Strategy: October 2008
<b>APIR code</b>	PCL0004AU	<b>FUM Fund/Strategy:</b>	A\$72.8/ US\$72.3
<b>Investment Strategy</b>	Asia Pacific Absolute Return	<b>Benchmark Index</b>	RBA Cash Rate Target
<b>Management Fee<sup>1</sup></b>	1.50% p.a.	<b>Redemption Price at Month End</b>	1.1267
<b>Performance Fee</b>	20.5% of the Fund's return in excess of the RBA Cash Rate subject to a high water mark		

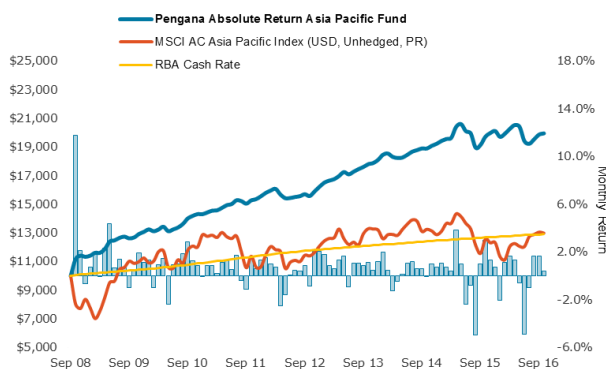
### Fund Performance

Net Returns to Oct 2016	Pengana Absolute Return Asia Pacific Fund <sup>2</sup>	RBA Cash Rate Target	MSCI ACWI Asia Pacific Price Index
<b>1 Month</b>	0.43%	0.13%	-0.25%
<b>3 Months</b>	3.77%	0.38%	1.80%
<b>6 Months</b>	-2.82%	0.82%	6.05%
<b>12 Months</b>	1.19%	1.82%	3.66%
<b>2 Years p.a.</b>	2.75%	2.01%	-0.42%
<b>3 Years p.a.</b>	3.87%	2.16%	-0.28%
<b>Since inception<sup>3</sup> p.a.</b>	8.92%	3.21%	3.83%
<b>Correlation<sup>4</sup></b>	0.06	<b>Max drawdown</b>	-8.0%
<b>Sharpe Ratio</b>	1.18	<b>Volatility</b>	6.29%
<b>Beta<sup>4</sup></b>	0.02	<b>Positive Months</b>	77%

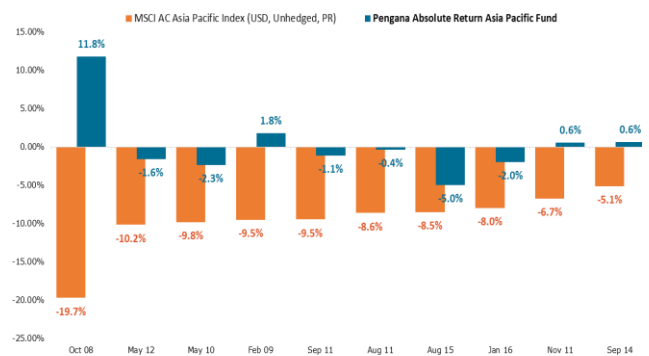
### Fund – Gross and Net Exposures



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



### Fund Performance During Market Falls<sup>3</sup>



<sup>1</sup> All fees are inclusive of GST net of RITC. Please refer to PDS for a more detailed explanation

<sup>2</sup> Net performance figures are shown after all fees and expenses, and assume reinvestment of distributions. Past performance is not a reliable indicator of future performance. The value of investments can go up and down.

<sup>3</sup> Inception date: September 2010. These performance figures show the returns of the Absolute Return Asia Pacific 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.

<sup>4</sup> MSCI AC Asia Pacific Index

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### Fund Commentary

The Fund finished up +0.43%<sup>2</sup> for the month of October 2016, compared to the Asia Pacific market index which fell -0.49% and the HFR Event Driven Index which closed -0.1%. The Fund averaged a gross and net exposure of 198.9% and 15.3% respectively.

The Fund has continued to generate solid performance through volatile markets. A number of strategies have contributed positively, demonstrating the Fund's ability to invest in different strategies and the diversified nature of them. The Fund has continued to develop the credit sub-strategy, which focuses on Convertible Bonds and the arbitrage opportunities they create, and has reduced its exposure to M&A.

### M & A

The M&A sub-strategy contributed 0.24% to Fund performance. The most notable development was in Vitaco (VIT AU) where the offeror received key regulatory approvals which de-risked the transaction and the spread tightened by ~500bps. In Japan, the proposed merger of Kumiai Chemical (4996 JT) with Ihara Chemical (4989 JT) was favourable as the price ratio moved closer to our expected levels. While the merger framework has been disclosed to the market, the share swap terms have not been set yet which created a pricing inefficiency. The trade moved about 900bps in our favour intra month. Our existing position in Coca Cola West (2579 JT) also benefited from a reported capital tie up with Kirin (2503 JT). Our position which is based on the merger with Coca Cola East (2580 JT) received a further boost as media reported the merged Coca Cola entity was negotiating an alliance with Kirin once the merger completes early next year. We also increased our conviction in Hellaby Holdings (HBY NZ) in New Zealand. We anticipate Bapcor (BAP AU) to return with a superior offer in November, potentially including a share element on top of the existing cash. Other names the Fund was active in during the month were Bradken (BKN AU), UGL Limited (UGL AU) and LG Life Sciences (068870 KS).

### Stubs Strategy

The stub strategy continued its solid performance by contributing 0.45% to Fund performance, which brings the YTD contribution from the strategy to 3.9%. We continued to maintain a healthy gross exposure to this strategy of 25% of NAV. The Fund profited from the listing of IDFC Bank (IDFCBK IN) futures in India. While both parent company IDFC Limited (IDFC IN) and IDFC Bank are listed separately, there was no hedging mechanism prior to the listing of the futures contract for the market to correctly price the NAV discount. The listing of this instrument catalysed a tightening of the NAV discount which the Fund profited from. The Fund also opportunistically used the de-rating of Crown Limited (CWN AU) shares to cover our short position and initiate a new long position when the shares de-rated further. The selloff was sparked by the arrest of Crown employees in Macau over marketing offences, while the actual impact is yet unknown, the significant de-rating was ascribing no value uplift from the proposed spin-off, which we deemed excessive.

### Other Strategies

Within the capital structure sub strategy, the Fund allocated capital to the Tata Motors- DVR (TTMT/A) hedged with a short in Tata Motors (TTMT IN). With voting rights being the only differentiating factor, the DVRs trade at a discount band to the underlying shares. What attracted us to the trade was that the discount of the DVRs was close to the 40% low that has defined the relationship over a long period. The discount also exhibits negative correlation to Tata Motors shares. In addition, there were press reports that the Tata family was looking to team up with sovereign funds to buyout ousted chairman Mistry's stake in Tata Sons. One avenue to raise capital to fund this purchase would be to sell down Tata Motors shares, which creates an overhang. The family does not own any shares in the DVRs which is positive. In summary, the deep discount coupled with any further upheaval at the Tata Group allows the Fund to profit from a narrowing of this discount.

Within capital management, the Fund used the correction in Samsung Electronics (005930 KS) over the Note7 scandal to initiate a long position. With the earnings write off over, this was factored into street estimates, and focus then shifted to potential shareholder returns at Samsung. A large activist investor's proposal was warmly received by the management, and we expect further developments in November to catalyse a re-rating in the shares.

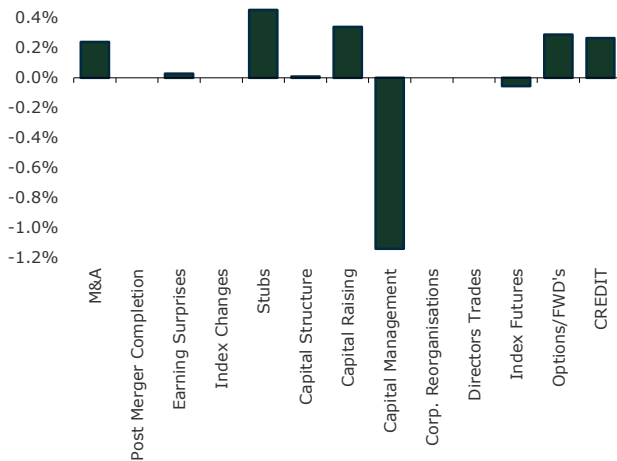
The Credit sub-strategy also posted a small positive 0.26% contribution to overall performance. We have neutralised the equity sensitivity in the Semiconductor Manufacturing Convertible Bond, which rallied 8.7% post an upgrade in earnings.

*We thank you for your continued support.*

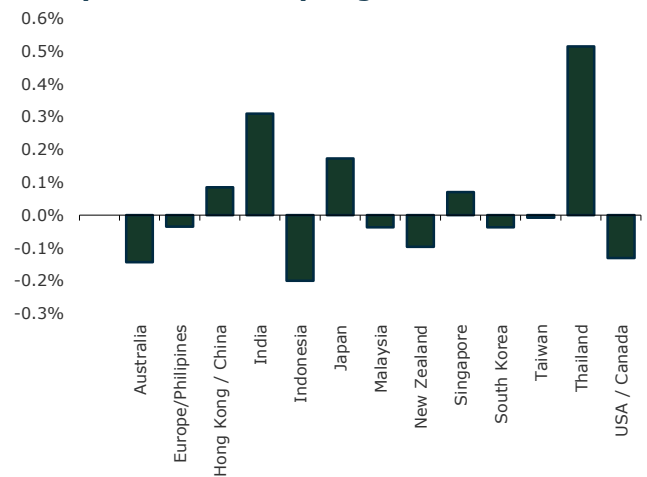
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### Monthly Contribution by Strategy

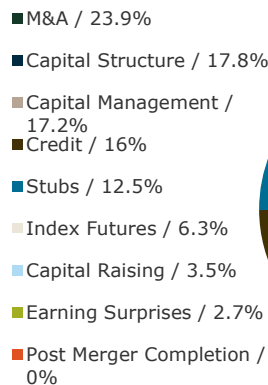


### Monthly Contribution by Region



### Portfolio Positioning

#### Monthly Gross Exposure by Strategy



#### Exposure by Region as % of NAV

Country	Gross	AdjNet*
Australia	26.7%	0.6%
Hong Kong/ China	41.3%	1.7%
India	13.8%	1.5%
Indonesia	3.6%	0.0%
Japan	60.2%	2.7%
Korea	14.2%	2.6%
Malaysia	3.8%	1.2%
New Zealand	1.9%	1.4%
Singapore	14.1%	6.1%
Philippines	3.5%	-1.6%
Taiwan	1.5%	-0.4%
Thailand	12.7%	1.3%
United States	1.8%	-1.8%
<b>Total</b>	<b>198.9%</b>	<b>15.3%</b>

\*Excluding M&A and capital structure arbitrage and beta adjusted

### Awards



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