

# Pengana Absolute Return Asia Pacific Fund

## December 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\$70.3/ US\$66.9
<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>	1.1123
<b>Performance Fee</b>	20.5% of the Fund's return in excess of the RBA Cash Rate subject to a high water mark		

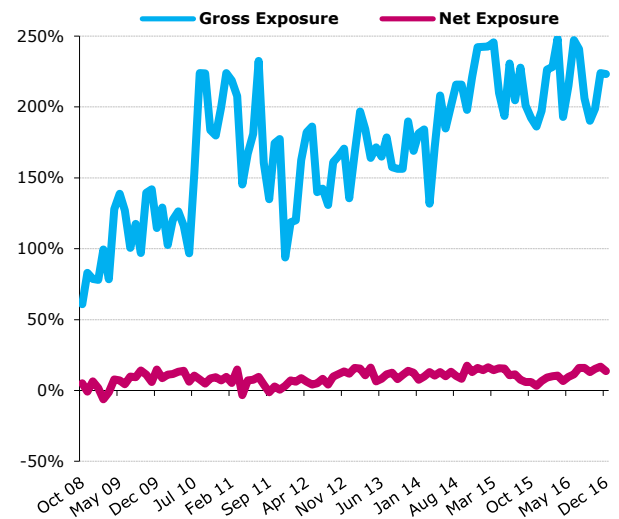
### Fund Performance

Net Returns to Dec 2016	Pengana Absolute Return Asia Pacific Fund <sup>2</sup>	RBA Cash Rate Target	MSCI ACWI Asia Pacific Price Index
<b>1 Month</b>	0.37%	0.13%	-0.46%
<b>3 Months</b>	-0.86%	0.38%	-3.34%
<b>6 Months</b>	1.44%	0.78%	4.77%
<b>12 Months</b>	-2.10%	1.73%	2.33%
<b>2 Years p.a.</b>	1.21%	1.92%	-1.03%
<b>3 Years p.a.</b>	2.85%	2.11%	-1.51%
<b>Since inception<sup>3</sup> p.a.</b>	8.56%	3.18%	2.86%

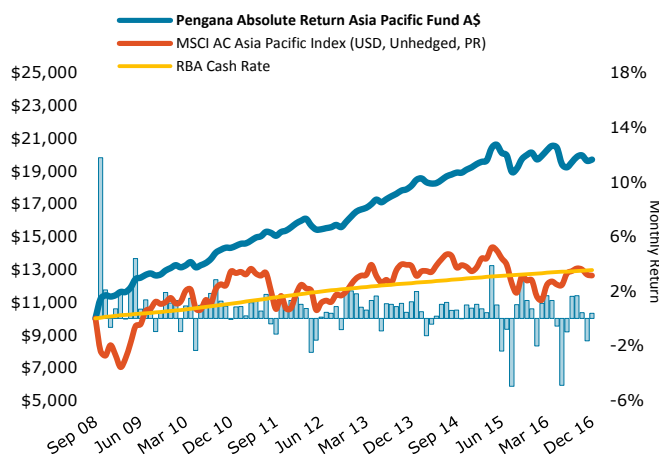
  

<b>Correlation<sup>4</sup></b>	0.07	<b>Max drawdown</b>	-8.0%
<b>Sharpe Ratio</b>	0.86	<b>Volatility</b>	6.28%
<b>Beta<sup>4</sup></b>	0.03	<b>Positive Months</b>	77%

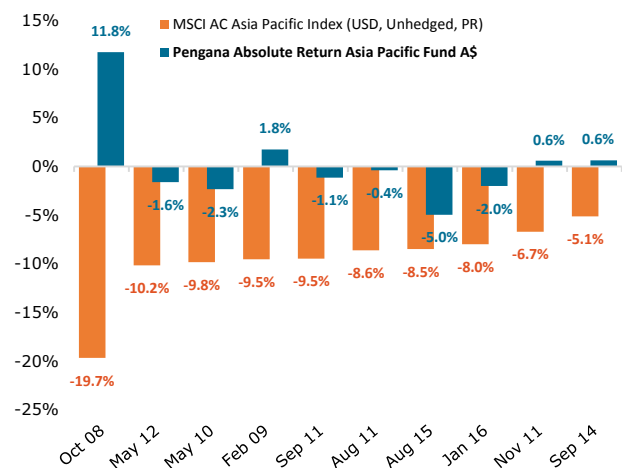
### Fund – Gross and Net Exposures



### 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 +0.4% for the month of December 2016, compared to Asia Pacific markets which fell -0.46% for the month and -3.4% for the final quarter of 2016. Global volatility continued to remain low while USD strength weighed on emerging Asian markets. The Fund's net and gross exposure averaged 13.8% and 223.3% respectively.

No significant changes were made to the structure of the portfolio during the course of the month. Gross exposures to the 5 key strategies of M&A, Capital Structure, Capital Management, Credit and Stubs were maintained and, from a regional perspective, Hong Kong and Japan remained the markets in which we are most heavily invested. The greatest contributions however for the month came from Australia and Singapore, with M&A being the most successful strategy. We continue to invest cautiously, looking for clear catalysts and ensuring that we are adequately and accurately hedged.

### Asian Event Landscape

The disconnect between public and private market valuations was evident as Cheung Kong Infrastructure bid for Duet Group in early December. This bid coincided with a fall in share prices post the US election in a "yield off" environment. While we maintain a neutral view to this transaction due to Foreign Investment Review Board (FIRB) uncertainty, we anticipate that more highly cash generative companies could become M&A targets if high yielding stocks continue to get punished under a rising interest rate environment.

### M&A

The Fund was active in supporting a higher offer in Hellaby Holdings by Bapcor Limited despite the lack of engagement from the Hellaby board. Along with other shareholders, we provided an undertaking to accept Bapcor's offer in return for a higher price (increased to \$3.60 from \$3.30) which reflected a fair valuation. In doing so, the deal has gathered momentum in giving Bapcor control and significantly increases the likelihood of completion in a timely manner.

In Japan, the consolidation of the refiners progressed with the Japan Fair Trade Commission (JFTC) approvals. This development positively impacted our position in the merger between TonenGeneral and JX Holdings.

Within Australia, we initiated a position in Duet as it received a proposal from Cheung Kong Infrastructure, as discussed above. We view this position as an opportunity to trade around the spread due to our caution in the FIRB approval process. On initiation, the market was pricing in a 50% chance of the deal completing which we view as too pessimistic. We intend to trade out of this position when the contraction in the spread implies a more realistic probability.

### Stub Strategy

Our long position in Softbank rallied sharply post a meeting between CEO Masayoshi Son and President Elect Donald Trump. The meeting ignited speculation that key subsidiary Sprint would be allowed to merge with Softbank under the new administration. This event sparked a sharp re-pricing of the NAV discount of Softbank and we exploited the rally to exit our position.

The Fund was also active in the following holding company pairs trades during the month: Wheelock Holding/ Wharf and NTT/ NTT Docomo.

### Other Strategies

Within Capital Management, Crown Resorts scrapped their international demerger plans to monetize their stake in Melco Crown on the open market. The proceeds will be used to fund a special dividend and a share buyback programme. We view this development positively as the original spin off plans would have been shareholder value neutral as opposed to a dividend and buyback. The Fund exploited the initial weakness in the stock to initiate a long position.

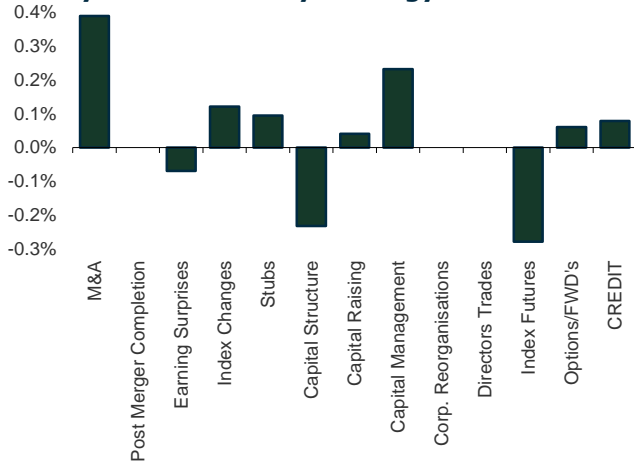
In Malaysia, Tenaga updated the market on its much anticipated dividend policy which left us disappointed. With much expectation being built into the stock price for an aggressive dividend payout policy, we see more value in the stock from the short side.

In the Credit sub-strategy, our position in SMIC Convertible Bond continued to perform well, as the company is expanding its capacity to capitalise on the rising demand for legacy/specialty tech from a variety of sensors, such as fingerprints and connectivity. This position, which is 90% hedged against the underlying equity contributed 15bps to overall performance. On the other hand, the Fund trimmed the hedged position in Haitong Securities.

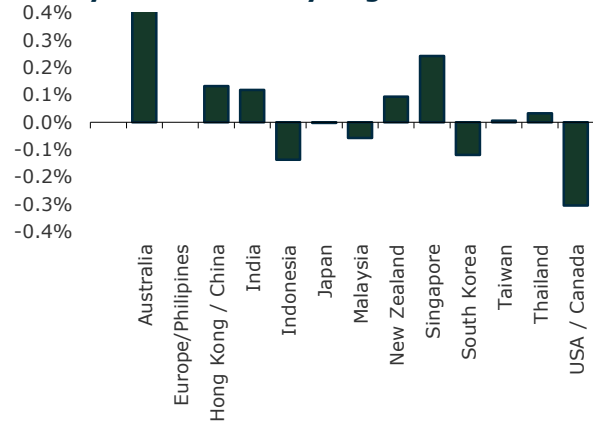
*We thank you for your continued support.*

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## Monthly Contribution by Strategy

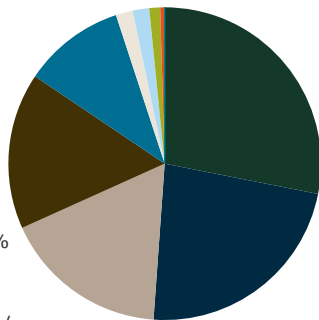
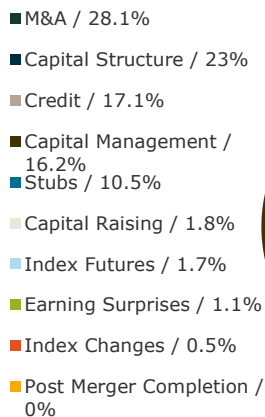


## Monthly Contribution by Region



## Portfolio Positioning

### Monthly Gross Exposure by Strategy



### Exposure by Region as % of NAV

Country	Gross	AdjNet*
Australia	19.9%	2.5%
Hong Kong/ China	49.6%	1.0%
India	24.2%	0.7%
Indonesia	2.4%	-1.1%
Japan	59.4%	4.7%
Korea	32.1%	0.9%
Malaysia	1.2%	-1.2%
New Zealand	4.2%	-0.1%
Singapore	21.0%	3.7%
Philippines	0.0%	0.0%
Taiwan	0.0%	0.0%
Thailand	8.4%	2.5%
United States	0.9%	0.0%
<b>Total</b>	<b>223.3%</b>	<b>13.8%</b>

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

## Awards



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