

# Pengana Absolute Return Asia Pacific Fund

## January 2017 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.

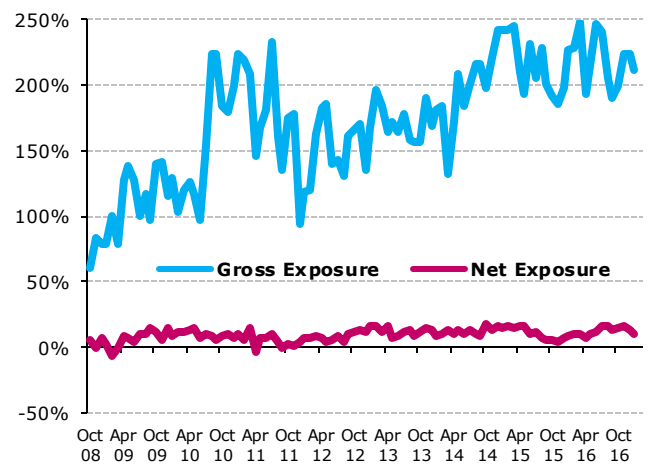
### Fund Facts

<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\$67.8/ US\$67.6
<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>	1.1219
<b>Performance Fee</b>	20.5% of the Fund's return in excess of the RBA Cash Rate subject to a high water mark		

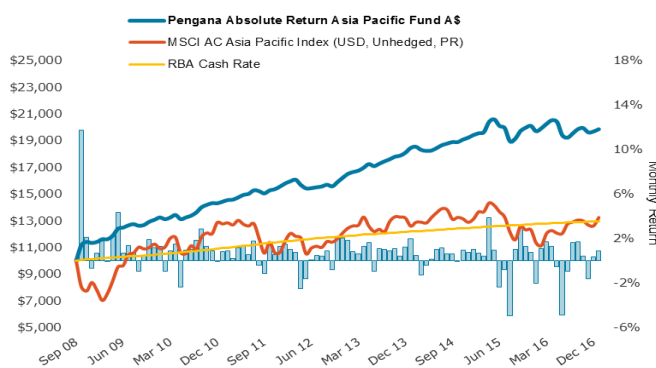
### Fund Performance

Net Returns to Jan 2017	Pengana Absolute Return Asia Pacific Fund <sup>2</sup>	RBA Cash Rate Target	MSCI ACWI Asia Pacific Price Index
<b>1 Month</b>	0.86%	0.13%	4.94%
<b>3 Months</b>	-0.43%	0.38%	1.93%
<b>6 Months</b>	3.32%	0.75%	3.89%
<b>12 Months</b>	0.78%	1.69%	16.74%
<b>2 Years p.a.</b>	1.13%	1.88%	0.48%
<b>3 Years p.a.</b>	2.48%	2.09%	1.68%
<b>Since inception<sup>3</sup> p.a.</b>	8.58%	3.16%	3.43%
<b>Correlation<sup>4</sup></b>	0.07	<b>Max drawdown</b>	-8.0%
<b>Sharpe Ratio</b>	1.13	<b>Volatility</b>	6.25%
<b>Beta<sup>4</sup></b>	0.03	<b>Positive Months</b>	77%

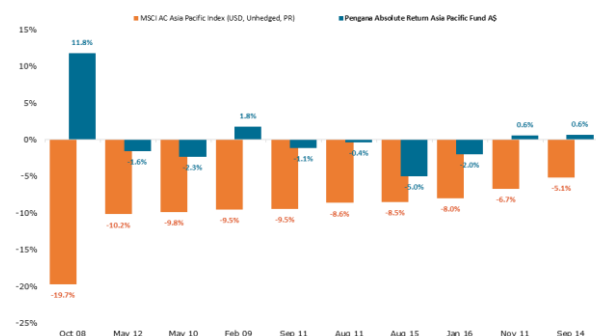
### Fund – Gross and Net Exposures



### 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 0.9% for the month of January 2017, compared to the RBA cash rate of 0.1% and Asia Pacific markets which posted a solid gain of 4.9%. Most of these gains however stemmed from a weakening of the US Dollar against major world currencies.

The Fund's net and gross exposures averaged 9.5% and 211.8% respectively. More than 50% of the gross exposure was invested in Japan and Hong Kong/China, with exposure to India, Korea and Singapore being reduced over the course of the month. We increased our positions in Stub trades and reduced exposures to M&A (see below for further explanation) and Capital Management. Overall the net and gross exposure was reduced slightly during January.

### Asian Event Landscape

Asia Pacific & Japan deal making activity continued to be strong in January, with US\$75bn worth of transactions announced. The Chinese state-owned Shenzhen Metro Group, agreed to acquire a 15.3% stake in China Vanke from China Resources trade and China Resources Co, in a privately negotiated transaction. The deal is occurring in the context of the restructuring of China Resources and will make Shenzhen Metro the largest shareholder of China Vanke.

### M&A

The M&A sub-strategy performed very well posting a solid return of 1.1%. The biggest positive contributor was our position in Yingde Gases which contributed 25bp to the overall performance. The company announced on 9 January that it had received an expression of interest from two different parties. The first one was from Stellars Capital (announced on 23 December) regarding a possible offer, the second one from Air Products & Chemicals via a scheme of arrangement. APD is a strategic buyer with 30x the market capitalisation of Yingde Gases, revenues of US\$9.5bn in 2016, and a history of acquiring firms. The offer from APD comes with a takeover price of HK\$5.50 – HK\$6.00 per share, compared with Stellars Capital's current price of HK\$4.50. APD also reserved the right to consider other forms of takeovers in the event that the scheme structure does not work.

Our position in Huabao also performed favourably. To recap: on 24 November, a consortium led by Resourceful Link International (the company's CEO and Chairwoman) made a conditional offer to acquire all shares in Huabao at HK\$3.30 per share, which valued the company at 2x historical price/book. The offer is only conditional upon a 50% minimum ownership requirement and the consortium already holds 41.18% of total shares. Given the low multiple and likely re-rate of the market, we did not tender our holdings to the offer. Subsequently, the share price of Huabao traded through the original offer price of HK\$3.30 to HK\$3.47 by month-end. We have used this strength to trim some of our holding.

In Japan, our position in Ichiko Industries also performed well with the stock finishing the month +13%. The existing shareholder, Valeo SA, with a 31.58% stake in Ichiko announced a partial offer at JPY 408 per share to bring their ownership stake to between 50-55%. However, post the tender offer, the acceptance ratio came out at 75% and the company's share price re-rated strongly above the JPY 408 partial tender offer price to JPY 426.

The overall gross exposure in the M&A sub-strategy came down from 63% to 49% on the back of some M&A deals successfully completing. In Korea, the merger/share buyback offer in LG Chemical/LG Life Science and SK Communication/SK Telecom was successfully completed. In New Zealand, our position in Hellaby also completed, capturing a realised M&A deal spread of >8% absolute after receiving a higher consideration of NZ\$3.60 from NZ\$3.30 per share from Bapcor Limited.

### Stub Strategy

The Stubs-Strategy performed well posting a return of 0.37% for the month. For the financial year to date, this uncorrelated and stable strategy has returned 3.0%. The biggest contributor was Wheelock Holding/Wharf, gaining 7% on relative terms. Other holding company pairs the Fund was active in were PCCW LTD/HongKong Trust and Alumina/Alcoa.

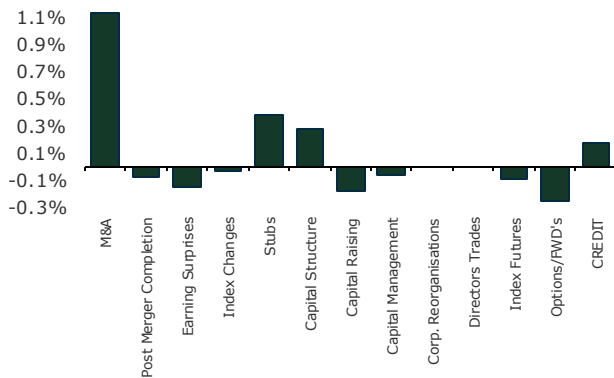
### Other Strategies

Within Capital Raising, we are currently selling the position in Honma Golf, which contributed to an overall loss of 16bps from this sub-strategy. On the other hand, our convertible bonds Sony 2022 and Bagan Capital/Beijing Enterprises Water 2021 gained 2.2% and 1.9% respectively, contributing 20bps to the Credit sub-strategy.

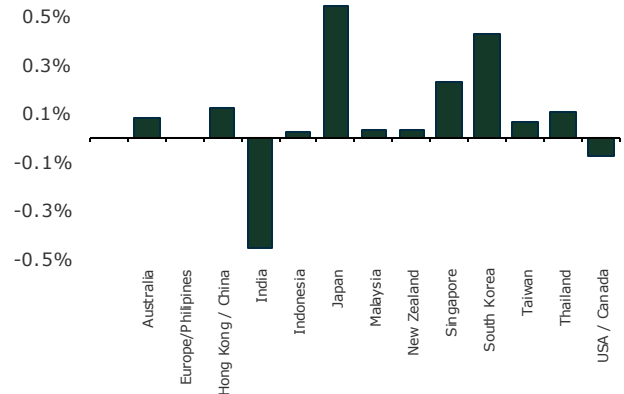
*We thank you for your continued support.*

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## Monthly Contribution by Strategy



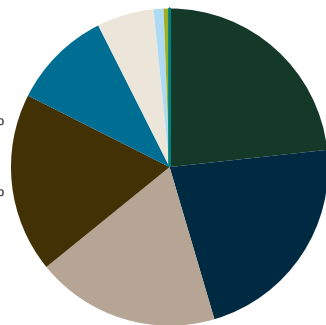
## Monthly Contribution by Region



## Portfolio Positioning

### Monthly Gross Exposure by Strategy

- M&A / 23.3%
- Capital Structure / 22.2%
- Credit / 18.7%
- Stubs / 18.3%
- Capital Management / 10.1%
- Earning Surprises / 5.8%
- Post Merger Completion / 1%
- Capital Raising / 0.6%
- Index Changes / 0%
- Corp. Reorganisations / 0%
- Index Futures / 0%



### Exposure by Region as % of NAV

Country	Gross	AdjNet*
Australia	19.1%	1.2%
Hong Kong/ China	60.3%	3.4%
India	11.5%	1.8%
Indonesia	2.1%	-2.1%
Japan	67.9%	3.1%
Korea	24.8%	0.2%
Malaysia	1.2%	-1.2%
New Zealand	0.0%	0.0%
Singapore	15.1%	3.1%
Philippines	0.0%	0.0%
Taiwan	1.3%	1.0%
Thailand	5.9%	1.7%
United States	2.6%	-2.7%
<b>Total</b>	<b>211.8%</b>	<b>9.5%</b>

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

## Awards



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