

# Pengana Absolute Return Asia Pacific Fund

## February 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\$49.4/ US\$54.6
<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>	1.1215
<b>Performance Fee</b>	20.5% of the Fund's return in excess of the RBA Cash Rate subject to a high water mark		

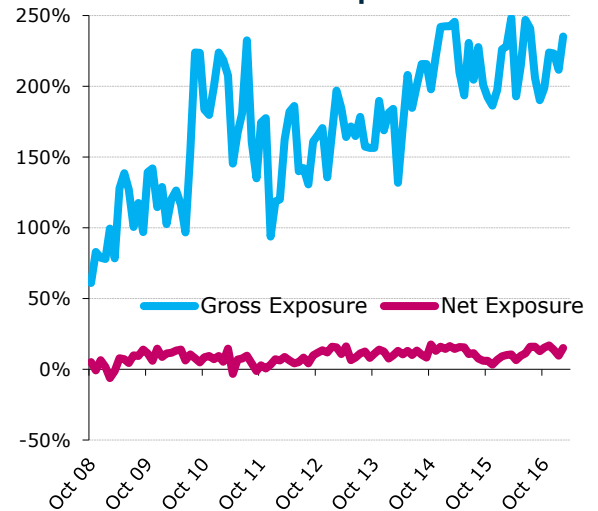
### Fund Performance

Net Returns to Feb 2017	Pengana Absolute Return Asia Pacific Fund <sup>2</sup>	RBA Cash Rate Target	MSCI ACWI Asia Pacific Price Index
<b>1 Month</b>	-0.04%	0.11%	2.37%
<b>3 Months</b>	1.20%	0.37%	6.94%
<b>6 Months</b>	1.63%	0.74%	5.14%
<b>12 Months</b>	-0.35%	1.65%	21.75%
<b>2 Years p.a.</b>	0.76%	1.85%	-0.39%
<b>3 Years p.a.</b>	2.30%	2.06%	1.72%
<b>Since inception<sup>3</sup> p.a.</b>	8.49%	3.15%	3.68%

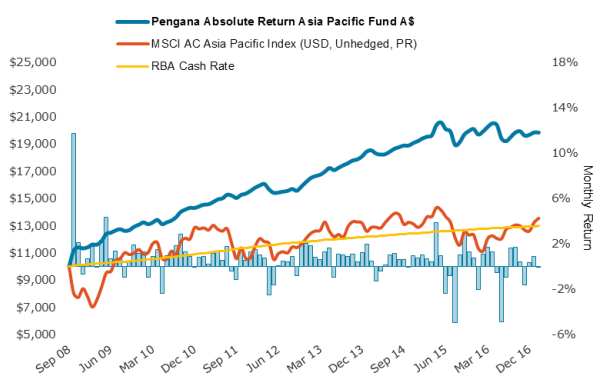
  

<b>Correlation<sup>4</sup></b>	0.07	<b>Max drawdown</b>	-8.0%
<b>Sharpe Ratio</b>	1.12	<b>Volatility</b>	6.22%
<b>Beta<sup>4</sup></b>	0.02	<b>Positive Months</b>	76%

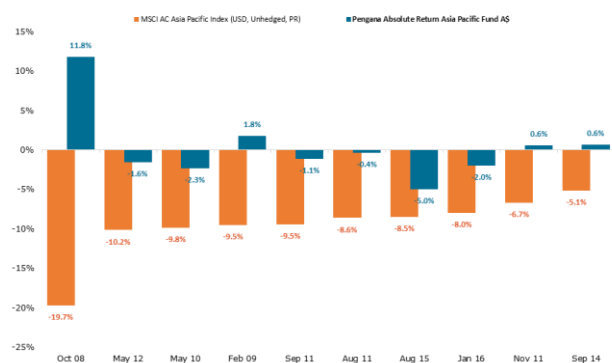
### Fund – Gross and Net Exposures



### 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 unchanged for the month of February 2017, compared to Asia Pacific markets which posted a gain of 2.4%. Asian and Global markets continued their upward trajectory, with volatility trading at historically low levels. Tactically, the Fund used the low volatility environment to implement overall portfolio protection via puts in certain markets, to cushion the Fund should markets retrace. We have not seen a 1% drawdown in the US S&P500 Index in more than 90 trading sessions.

The Fund's net and gross exposures averaged 15% and 235.2% respectively during the month. The overall gross exposure in the M&A sub-strategy came down from 49% to 42.5% on the back of some M&A deals successfully completing. Positions in Holding Company Arbitrage (Stubs) and Capital Management have been increased, while our main regional exposures continue to be Japan and Hong Kong/China.

### M&A

The M&A sub-strategy posted a very satisfactory performance of +1.3% after gaining 1.1% in January. The biggest positive contributor was our position in Television Broadcasts Ltd TVB, which gained 14% and contributed 40 basis points to performance.

Our position in Yingde Gases contributed 22bp to performance, gaining 13% over the month. To recap, 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 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 and revenues of US\$9.5bn in 2016. APD also reserved the right to consider other forms of takeovers in the event that the scheme structure does not work. We have locked-in an overall gain in excess of +40% since initiation of the position at the beginning of January

Our untendered position in Huabao also performed favourably. Given the low multiple and re-rating of the market, we have not tendered our holdings to the offer and, as expected, the share price of Huabao traded through the original offer price of HK\$3.30 to HK\$4.17 by month-end. We have used the strength to liquidate this holding realising a gain of 15.2% for the month.

Another re-rate trade that was successful was our position in Ichiko Industries in Japan. An existing shareholder, Valeo SA, announced a partial offer at JPY 408 per share to bring their ownership stake to between 50-55%. The realised M&A spread in this trade was >15% in absolute terms.

In New Zealand we have initiated a small position in Tower Ltd after the company received a competing non-binding indicative proposal from Suncorp through its wholly-owned subsidiary Vero Insurance NZ. Vero has raided the register with a block trade at NZ\$1.30 and is now a 13.3% shareholder. The original all cash offer came from Fairfax Financial Canada at NZ\$1.17. This deal situation offers optionality for a higher or equal take out price, as Fairfax has the right to match a competing offer within a 10 business day window.

### Capital Structure

The Capital Structure trades performed negatively, generating a loss of -0.9% for the month. The bulk of the poor performance stemmed from our positions in Korean Preference vs Ordinary shares. Due to month end liquidity positioning we expect the ratios in the Samsung Prefs/Ords and LGH&H Ords/Prefs to revert back to normal levels in the coming month.

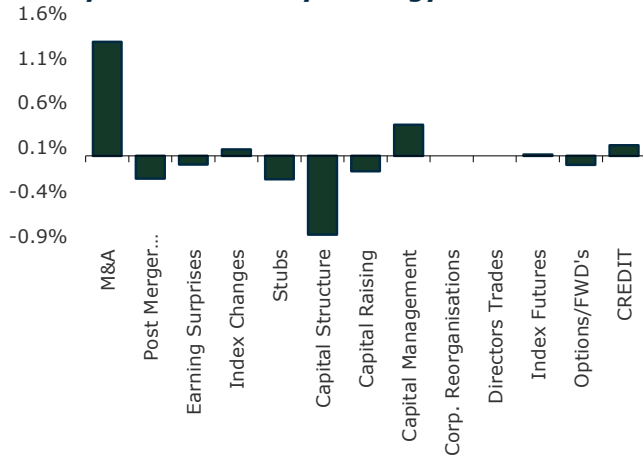
The Fund is also conservatively positioned in the A-shares / H-shares discount trade as Anhui Conch H-share trades at a premium to its A-Share listing, and the Tsingtao Brewery H-share discount narrowed to its a 1 year historical high. Should markets in HongKong/China enter a correction phase, we expect positive relative outperformance in our shorts in the H-shares vs A-shares.

*We thank you for your continued support.*

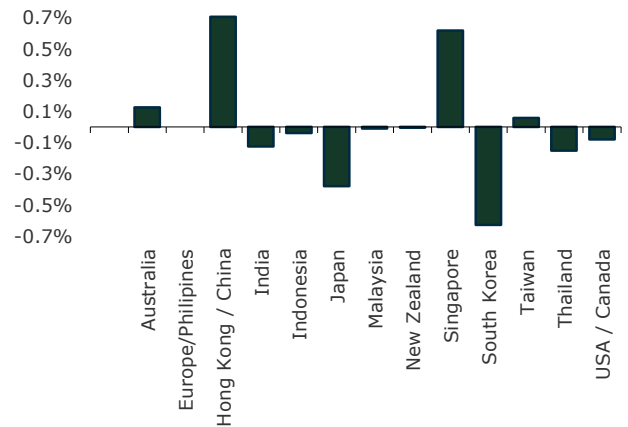
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### Monthly Contribution by Strategy

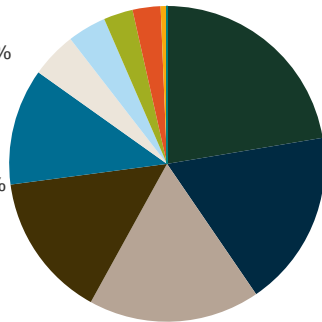
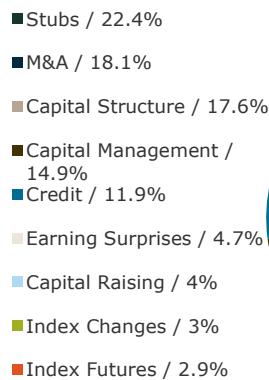


### Monthly Contribution by Region



### Portfolio Positioning

#### Monthly Gross Exposure by Strategy



#### Exposure by Region as % of NAV

Country	Gross	AdjNet*
Australia	26.6%	0.7%
Hong Kong/ China	66.0%	2.4%
India	14.1%	0.5%
Indonesia	1.2%	-1.2%
Japan	62.7%	3.2%
Korea	26.8%	0.4%
Malaysia	0.0%	0.0%
New Zealand	1.5%	0.9%
Singapore	18.7%	2.5%
Philippines	0.0%	0.0%
Taiwan	3.3%	2.3%
Thailand	13.3%	3.4%
United States	1.1%	0.0%
<b>Total</b>	<b>235.2%</b>	<b>15.0%</b>

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

### Awards



### Contact Details

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