



PENGANA ABSOLUTE RETURN ASIA PACIFIC FUND

OCTOBER 2017
PERFORMANCE
UPDATE

FUND DESCRIPTION AND FEATURES

The Fund aims 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.

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.

Visit our website for more information on the [Fund](#)

Portfolio Managers	Antonio Meroni Vikas Kumra
APIR code	PCL0004AU
Redemption price	1.1072
Fees	Management Fee: 1.50%pa Performance Fee: 20.5% pa of the funds return in excess of the RBA Cash Rate
Minimum initial investment	A\$20,000
FUM Fund/Strategy	AUD\$35 mil / US\$41.5mil
Fund inception date	September 2010
Benchmark	RBA Cash Rate Target

PERFORMANCE COMMENTARY

The Fund finished up 2.2% for the month of October 2017. The HFR Event Driven Index posted a small loss of -0.1%, whilst Asia Pacific markets rose +4.3%. Of particular note was Japan up +5.5% with corporate earnings results having concluded. A total of 71.8% of corporates have reported recurring profit of more than 5% above their previous guidance, while only 8.3% have reported recurring profit more than 5% below guidance. We have slightly increased our Relative Value exposure to 100.8% from 95.2%, whilst keeping our M&A exposure and the Directional Alpha book unchanged. The Fund's net and gross exposures averaged 18.5% and 202.3% respectively during the month.

M&A

The M&A sub-strategy posted a gain of +0.88%, with a year-to-date contribution of +5.2%. The biggest return contributor was a position in Japan, a scrip merger in Alpine Electronics and Alps Electric, where we believe that the offer undervalues Alpine Electronics. The offer is for 0.68 shares of Alps Electric for each share of Alpine and is expected to close 1st January 2019. The offer only values Alpine's core business at around 3.5x EV/EBITDA, without a meaningful takeover premium. During September we set-up this position (long Alpine/short Alps) with the possibility of the spread trading through terms. The catalyst for the re-rate was the better than expected operating profits on 30th October, and the projected higher net income forecast

which may lead to a higher swap ratio. There has also been shareholder activism activity, whereby Oasis Management built a stake of >9% in Alpine. Oasis has offered JPY 2400 per share, which was higher than the price implied by the share-exchange ratio of 0.68. The return contribution from this re-rate was +0.25%.

In Australia, we added a new M&A position in Mantra Group. The French group Accor S.A. has offered to acquire all Mantra shares at A\$3.96, via a scheme of arrangement. There is also a possibility of a dividend bump, should Mantra pay a dividend for the period ending 31st December 2017, thereby offering an attractive IRR. Two other deals completed successfully namely the scheme in Programmed Maintenance by Persol Holdings, and the asset sale in Astro Japan Property Group. We have also exited the position in Challenger Limited which contributed 0.15% to overall performance. The Japanese insurance company MS&AD entered a strategic relationship on 23rd August to acquire a 6.3% stake in Challenger aiming to increase it to 10% through an on market share buy back within 12 months. We have noticed aggressive buying activity by MS&AD with the latest filing showing an 8.4% stake. In Hong Kong, we added Tiangong International, offering an annualised IRR of >20% to the proposed take out price of HK\$0.90. Due to the low premium offered, we anticipate that the share price could potentially trade above the take out price.

ALL THREE
SUB-
STRATEGIES
CONTRIBUTED
POSITIVELY
FOR THE
MONTH

Relative Value

The relative value book contributed +0.53% during the month. A positive contributor was our long position in Qantas Airways vs short in Singapore Airlines contributing 0.14%. The catalysts for the 7.6% outperformance were: capital management initiatives of A\$500mIn, above consensus profit before tax of A\$1.4bn, whilst SIA saw net profit below last year's and higher capex spending. In Australia, we are looking for the Fairfax separation vote scheduled for 2 November to be approved, as 40% of Domain shares will be distributed to exiting Fairfax shareholders. This position, hedged against REA contributed 0.15%. In Japan, our HoldCo trade long Keisei Electric vs short Oriental Land contributed +0.12%. We also realised gains in Sampo Hldg vs a short in MS&AD Insurance for a relative outperformance of 7.7% on the back of the completion of Sampo's share

buy back. We have added a new pair long Mitsui OSK vs short Kawasaki Kisen as Kawasaki lowered their recurring profits from JPY21bn to JPY13bn. Mitsui OSK trades a steep valuation gap of P/B of 0.8, vs Kawasaki's 1.2x, and saw their dry bulk business rising 47% y-o-y. Given our negative investment stance on the container outlook, we believe this trade will lead to relative outperformance in the coming months.

Directional Alpha

The performance contribution from our Directional Alpha book was +0.85%. Key successes during October were Shangri-La Asia +7.2%, 3sBio +11.5%, Softbank +9.5%, whilst detractors included China Foods -1%, and IHH Healthcare CB -0.6%. We have locked in gains in HSBC, and Capital Land and added Reliance Industries and Thai Beverage to our Directional Alpha book. For Reliance Industries we see supply side reforms in chemicals and consolidation in telecom, as catalysts for outperformance.

FUND PERFORMANCE

	1 Month	3 Months	6 Months	1 Year	3 Years	5 Years	Since Inception p.a. ^{1,2}
Pengana Absolute Return Asia Pacific Fund	2.2%	2.8%	6.0%	5.0%	3.5%	6.1%	8.5%
RBA Cash Rate Target	0.1%	0.4%	0.8%	1.5%	1.8%	2.2%	3.0%
MSCI AC Asia Pacific Index	4.3%	4.8%	12.9%	20.8%	5.8%	6.6%	5.1%

STATISTICAL DATA

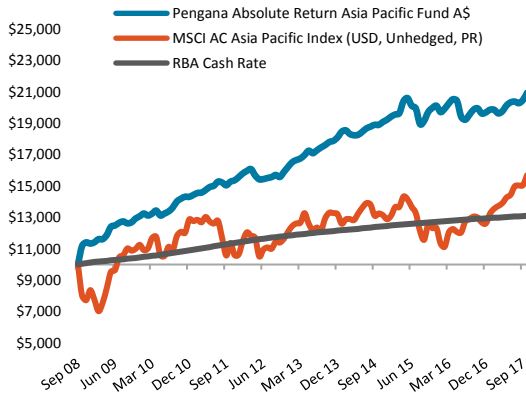
Fund portfolio summary	
Volatility ³	6.07%
Beta ⁴	0.03
Number of stocks	75
Maximum draw down	-7.99%
Sharpe Ratio	0.9

1. 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.
2. The strategy inception date is 1 October 2008. These performance figures show the returns of the Absolute Return Asia Pacific Fund from its 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 Fund is fully invested into the Offshore Fund.
3. Annualised standard deviation since inception.
4. MSCI AC Asia Pacific Price Index in USD

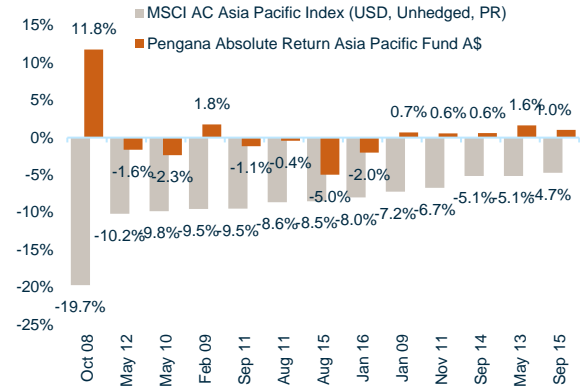
MONTHLY REPORT

PENGANA ABSOLUTE RETURN ASIA PACIFIC FUND

PERFORMANCE SINCE INCEPTION⁵

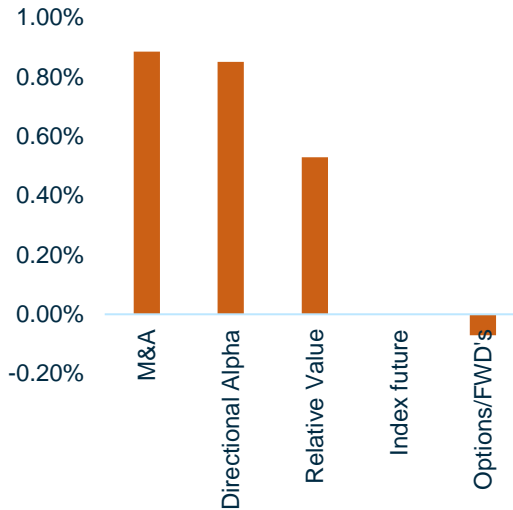


FUND PERFORMANCE DURING MARKET FALLS⁵

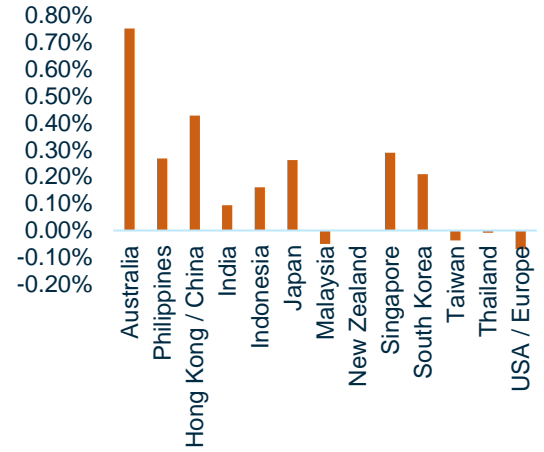


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MONTHLY CONTRIBUTION BY STRATEGY

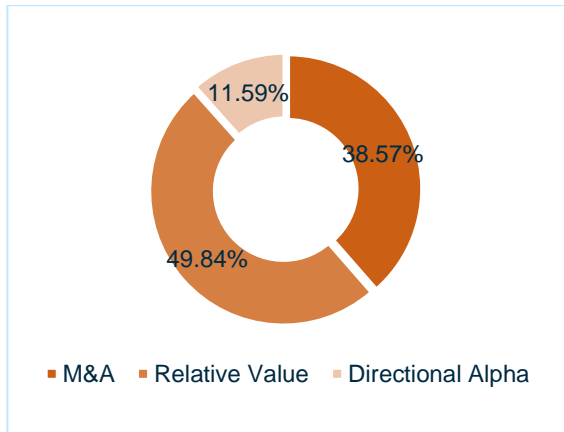


MONTHLY CONTRIBUTION BY REGION



PORTFOLIO POSITIONING

MONTHLY GROSS EXPOSURE BY STRATEGY



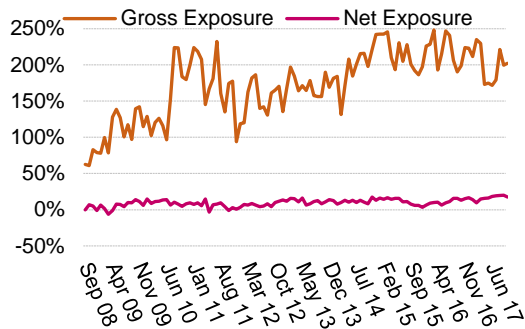
EXPOSURE BY REGION AS % OF NAV

Country	Gross	Adj. Net*
Australia	23.95%	-1.51%
Hong Kong/ China	72.13%	8.75%
India	1.67%	1.67%
Indonesia	2.08%	2.08%
Japan	60.32%	2.98%
Korea	18.98%	2.42%
Malaysia	5.02%	1.48%
New Zealand	0.00%	0.00%
Singapore	8.29%	0.57%
Philippines	2.45%	0.01%
Taiwan	6.19%	0.00%
Thailand	1.23%	0.00%
USA/Canada	0.00%	0.00%
Total	202.31%	18.45%

**MONTHLY
REPORT**

**PENGANA
ABSOLUTE
RETURN
ASIA
PACIFIC
FUND**

FUND – GROSS AND NET EXPOSURES



AWARDS



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INFORMATION
PLEASE VISIT
OUR WEBSITE:
PENGANA.COM**

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