



# PENGANA ABSOLUTE RETURN ASIA PACIFIC FUND

DECEMBER 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](#)

<b>Portfolio Managers</b>	Antonio Meroni Vikas Kumra
<b>APIR code</b>	PCL0004AU
<b>Redemption price</b>	A\$1.1279
<b>Fees</b>	Management Fee: 1.50%pa Performance Fee: 20.5% pa of the funds return in excess of the RBA Cash Rate
<b>Minimum initial investment</b>	A\$20,000
<b>FUM Fund/Strategy</b>	AUD\$34.2 mil / US\$41.3mil
<b>Fund inception date</b>	September 2010
<b>Benchmark</b>	RBA Cash Rate Target

## PERFORMANCE COMMENTARY

The Fund finished up +1.6% for the month of December 2017. The HFR Event Driven Index posted a gain of 0.4%, whilst Asia Pacific markets rose +2.0%. Asian markets started the month weakly, with the increase in volatility being driven by a reduction of market liquidity in growth- and momentum stocks in particular, a global tech sell-off, and scepticism towards China's macro climate.

M&A deal activity across Asia was robust in 2017 with approximately 147 announced deals. Australian M&A topped the deals by value, with the announcement of a merger between Westfield Corp and Unibail-Rodamco, the second largest deal ever in Australia in terms of the implied equity value of USD15.6bn. In Japan, shareholder activism has become a key theme, as deals like Hitachi Kokusai Electric and Panahome experienced higher take out prices from the initial deal terms, and extracted better value for shareholders. Our M&A gross exposure was slightly reduced from 64% to 57% on the back of successful deals completing, whilst we kept our Relative Value exposure unchanged at 74.7% and the Directional Alpha book at 30.3%. The Fund's net and gross exposures averaged 19.9% and 162% respectively during the month.

### M&A

The M&A sub-strategy posted a solid gain of +0.8%, with a 2017 total contribution of +6.4%. The biggest return contributor for December was Hutchison Telecom, which rose +10.2% contributing 41bps to overall performance. The company announced the divestment of its HK fixed-line

business, for a much better than anticipated HK\$14.5bn in cash. Further catalysts involve the distribution of a special dividend and CK Hutchison (a 66.09% shareholder) potentially taking the remaining business private, as the remaining mobile business is valued at a low 3x EV/EBITDA. In Taiwan, we received the scrip consideration in shares of 0.42 Taiwan Cement for each share in TCC International. We elected for the scrip consideration as a free option for a potential re-rate post the transaction completing. Taiwan Cement gained 8.5% and we have completely trimmed the position realising an absolute return of +11% since implementation. In Japan, gross exposure was reduced by 21.6% as a result of 5 M&A deals completing successfully: a scrip merger in Dunlop Sports / Sumitomo Rubber, and cash deals in Yusen Logistics, Oki Electric Cable, Fuji Kiko, and Asatsu-DK. We expect Japanese M&A deal activity to be robust in 2018, as a result of corporate governance reforms and continued restructuring efforts. In Malaysia, OldTown received a takeover offer from Jacobs Douwe Egbert, the Dutch coffee and tea producer, for MYR 3.18 per share. This deal is light in conditions with 50% min. acceptance (shareholders with 51.45% have provided an undertaking to accept the offer), and approval from the Competition Commission of Singapore. We have sized this new position to 5.7% as it offers a safe rate of return trade >10% p.a.. In Indonesia, Mitsubishi UFJ Financial Group has agreed to acquire a 33.8% stake in PT Bank Danamon Indonesia, after a conditional share purchase agreement for an aggregate 40% stake in BDMN from Temasek has been completed. In

M&A, DIRECTIONAL  
AND RELATIVE  
VALUE  
STRATEGIES  
CONTRIBUTED  
POSITIVELY FOR  
THE MONTH

Australia, we have added Westfield and AWELimited, the latter being subject to two competing bidders, China Energy Reserves Chemical Group and Mineral Resources.

### Relative Value

The relative value book contributed +0.5% during the month. The biggest contributor was our long/short position in +SG Holdings / -Yamato Holdings, contributing +32bps to overall performance. The unlocking event was the P/E arbitrage between the two companies, Yamato trading at 24x FY03/19 P/E, versus SG at 17.5x. Our long/short position +SINA Corp/-Weibo Corp recovered some of the previous month's losses contributing +14bps. SINA fended off shareholder activism by issuing Class A preference shares with no economic right to dividends or distributions. We continue to hold this position due to its deep NAV discount, and the potential for the distribution of bonus shares in Weibo. In Hong Kong our property long/short pair +CK Asset Holding / -Sun Hung Kai Properties contributed favourably. The catalyst for 1113 HK is to unlock its NAV by selling current development projects, strengthening the balanced sheet and allowing for potential buybacks. In Australia, our

long/short position +BHP Billiton /-RIO Tinto and our gold pair +Evolution Mining / -Newcrest Mining added +18bps to overall performance. BHP is a greater beneficiary than RIO under a spot price scenario given it has more exposure to copper, petroleum and coal. The proceeds from a full US onshore sale will likely see BHP move into a positive net cash position, allowing it to undertake capital management initiatives. In Thailand, we have also re-initiated a position in +Intuch Holdings /-Advanced Info Service on the back of this ratio trading above its historical average.

### Directional Alpha

The performance contribution from our Directional Alpha book was +0.9%. Key successes during December were China Foods +18.4%, China Travel +15%, and Wagners Holding +28%, whilst our key detractor was Softbank -6.0% which declined due to Rakuten entering the mobile market. We have locked in gains in Samsung Electronics, Shinsegae and Wharf Real Estate and added Orocobre and Li & Fung to the book. For Li & Fung we see the divestment of product verticals, an improving balance sheet structure and a special dividend as catalysts for outperformance.

## FUND PERFORMANCE

	1 Month	3 Months	6 Months	1 Year	3 Years	5 Years	Since Inception p.a. <sup>1,2</sup>
Pengana Absolute Return Asia Pacific Fund	1.61%	4.15%	4.95%	8.34%	3.53%	5.63%	8.54%
RBA Cash Rate Target	0.13%	0.38%	0.75%	1.50%	1.78%	2.11%	2.99%
MSCI AC Asia Pacific Index	2.0%	7.84%	12.44%	28.71%	8.03%	6.09%	5.38%

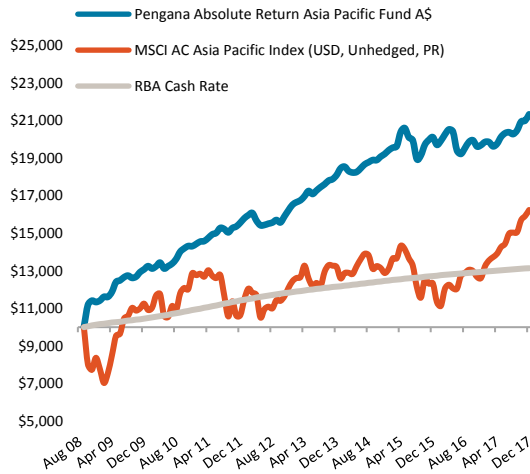
## STATISTICAL DATA

### Fund portfolio summary

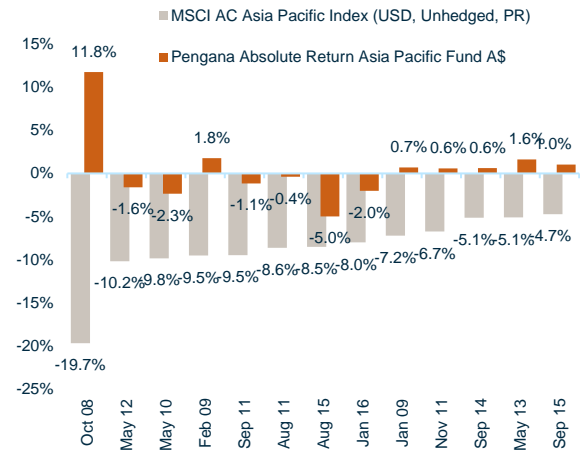
Volatility <sup>3</sup>	6.03%
Beta <sup>4</sup>	0.03
Number of stocks	67
Maximum draw down	-7.99%
Sharpe Ratio	0.92

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

PERFORMANCE SINCE INCEPTION<sup>5</sup>

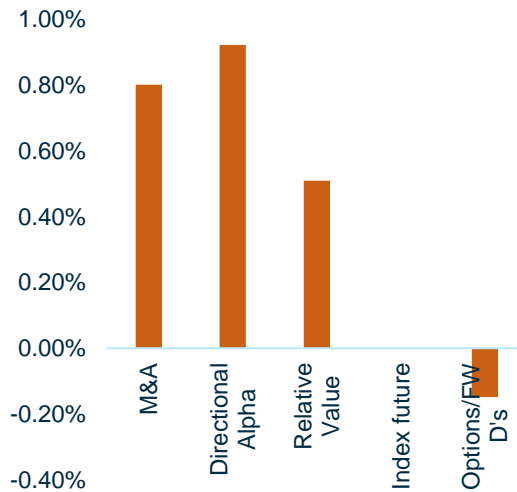


FUND PERFORMANCE DURING MARKET FALLS<sup>5</sup>

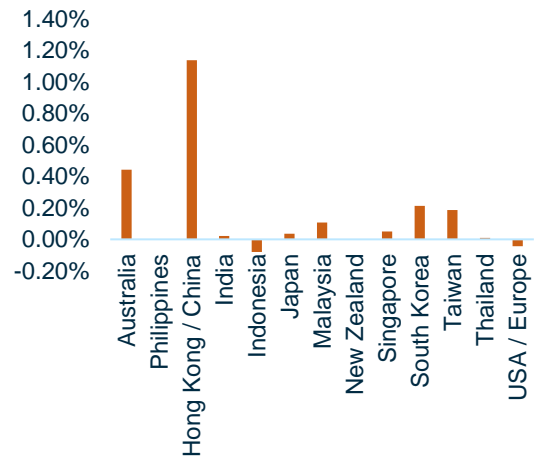


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MONTHLY CONTRIBUTION BY STRATEGY

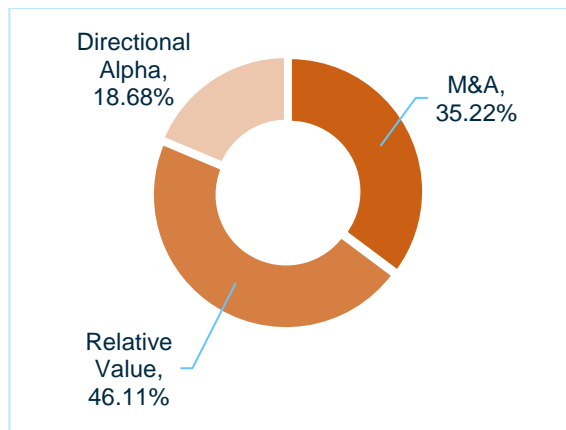


MONTHLY CONTRIBUTION BY REGION



PORTFOLIO POSITIONING

MONTHLY GROSS EXPOSURE BY STRATEGY



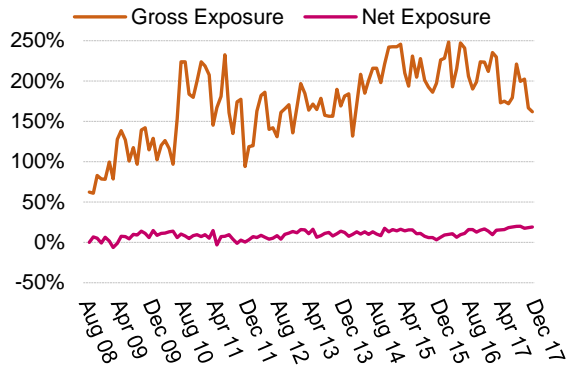
EXPOSURE BY REGION AS % OF NAV

Country	Gross	Adj. Net*
Australia	23.87%	-2.38%
Hong Kong/ China	64.23%	8.77%
India	1.98%	1.98%
Indonesia	4.52%	-2.18%
Japan	20.89%	4.11%
Korea	14.75%	4.90%
Malaysia	10.80%	1.00%
New Zealand	0.00%	0.00%
Singapore	8.46%	2.99%
Philippines	0.00%	0.00%
Taiwan	3.90%	0.00%
Thailand	8.67%	0.76%
USA/Canada	0.00%	0.00%
Total	162.07%	19.95%

## MONTHLY REPORT

### PENGANA ABSOLUTE RETURN ASIA PACIFIC FUND

#### FUND – GROSS AND NET EXPOSURES



#### AWARDS



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