



# PENGANA ABSOLUTE RETURN ASIA PACIFIC FUND

JANUARY 2018  
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 events. 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\$1.1340
<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\$34.1 mil / US\$42.2mil
<b>Fund inception date</b>	September 2010
<b>Benchmark</b>	RBA Cash Rate Target

## PERFORMANCE COMMENTARY

The Fund finished up +0.5% for the month of January 2018. Asia Pacific markets started the year with strong gains, particularly in the first day of trading in the New Year, finishing the month +5.9%. However, half of those gains were attributable to currency moves, as the US Dollar depreciated sharply by 3.3%.

Our M&A gross exposure increased to 73% from 57% on the back of strong M&A deal activity and our Relative Value exposure increased to 90% from 75%. On the back of strong equity moves, we have reduced our Directional Alpha book to 14.7% from 19.9%. The Fund's net and gross exposures averaged 14.7% and 186% respectively during the month.

### M&A

The M&A sub-strategy posted a gain of +0.4%, with a 12 month total contribution of +5.6%. The biggest return contributor for January was Alpine Electric which rose +5.7%, contributing 42bps to overall performance. On 30 January, the company revised upward its full-year consolidated earnings forecasts to JPY 48.98 per share compared to a consensus estimate of 25.8. To recap, Alps Electric announced on 27 July 2017 it was to acquire Alpine Electric. We believe that the offer undervalues Alpine Electronics and that the acquirer needs to improve the deal terms.

In Australia, our position in AWE Limited has become a three-way battle as Japan's Mitsui outbid the cash and scrip offer made by Mineral Resources and the low ball cash offer of China Energy Reserve and Chemical Group. On 29 January, Mitsui put forward a A\$0.95 per share cash proposal causing AWE shares to re-rate +16.5%. We partially locked-in profits as it was trading 4c above the cash terms. We have also added a new position in Sirtex Medical, which was subject to an offer by Varian Medical of A\$28. We have locked-in an IRR of 8%.

M&A deals that completed successfully during the month were Henry Group Holdings, with an unconditional cash offer at HK\$2.4232, and the largest private buyout of an Asian company through a takeover offer from Nesta Investment Holdings for GLP Pte for SG\$3.38 per share.

### Relative Value

The relative value book contributed +0.1% during the month. The biggest positive contributor was our long/short position +SINA / -Weibo Corp. contributing +16bps. The underperformance gap of SINA relative to Weibo has now been reversed, and we were able to take off the position with a net gain. In Hong Kong, our share class arbitrage trade in + Swire Pacific B shares / - A shares contributed positively to performance. This ratio hit a low in December 2017 and we anticipate it will revert to its historical average, with possible resumption of buyback activity by Swire in the B shares.

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

We have also added + China listed Ping An Insurance A / - Hong Kong listed Ping An , as our screens alerted us to the Hong Kong leg trading at a premium to it's A share listing. This is one of the few names in the A/H share arbitrage universe trading at a premium. In periods of higher volatility we expect the Hong Kong leg to trade at a discount. In Korea, our preference share class arbitrage in Hyundai Motors widened to a 5-year high. We expect this pricing anomaly to revert back to its historical average.

### Directional Alpha

The performance contribution from our Directional Alpha book was +0.7%. Key successes during January were Tsingtao +13.7%, China Conch Venture +19.8%, SIIC Environment +4.9%, whilst our key detractors included Bharti Airtel (BHARTI IN) -3.0%. We have added Quality House as we see the current NAV discount of 25% as excessive, with a focus on improvement in gross margins and a significant increase in new single-detached houses.

### FUND PERFORMANCE

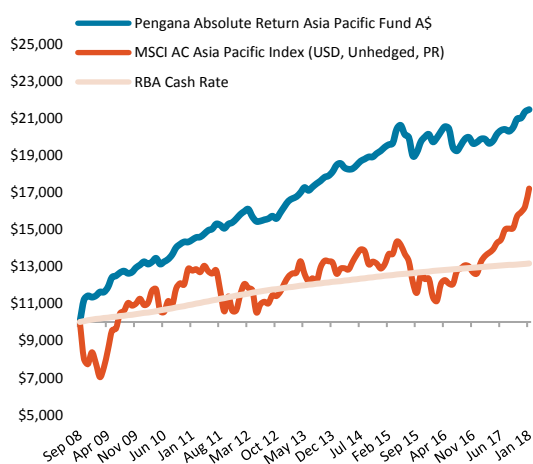
	1 Month	3 Months	6 Months	1 Year	3 Years	5 Years	Since Inception p.a. <sup>1,2</sup>
Pengana Absolute Return Asia Pacific Fund	0.5%	2.4%	5.2%	8.0%	3.4%	5.4%	8.5%
RBA Cash Rate Target	0.1%	0.4%	0.8%	1.5%	1.8%	2.1%	3.0%
MSCI AC Asia Pacific Index	5.9%	9.5%	14.8%	29.9%	9.4%	6.7%	6.0%

### STATISTICAL DATA

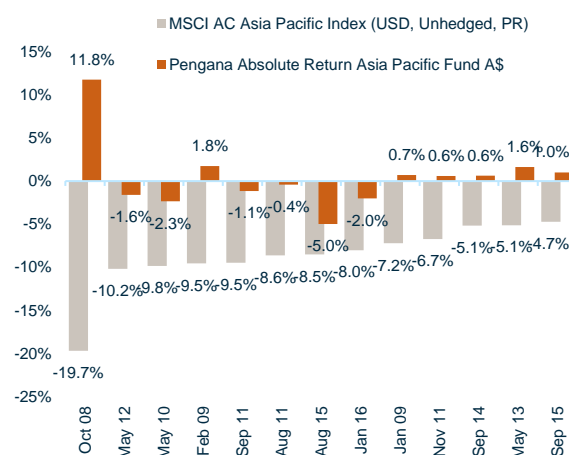
#### Fund portfolio summary

Volatility <sup>3</sup>	6.0%
Beta <sup>4</sup>	0.03
Number of stocks	71
Maximum draw down	-7.99%
Sharpe Ratio	0.92

### PERFORMANCE SINCE INCEPTION<sup>5</sup>



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

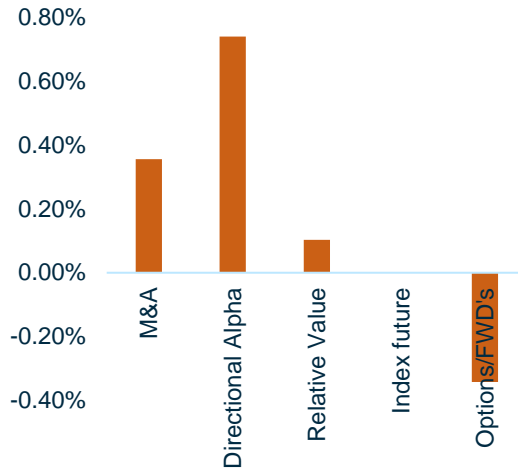


1. Net performance figures are shown after all fees and expenses, and assume reinvestment of distributions. Past performance is not a reliable indicator of future performance. The value of investments can go up and down.
2. The strategy inception date is 1 October 2008. These performance figures show 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
5. 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. Fund 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.

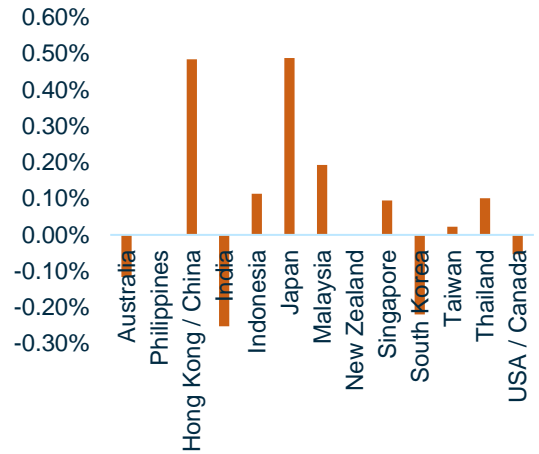
**MONTHLY REPORT**

**PENGANA ABSOLUTE RETURN ASIA PACIFIC FUND**

**MONTHLY CONTRIBUTION BY STRATEGY**

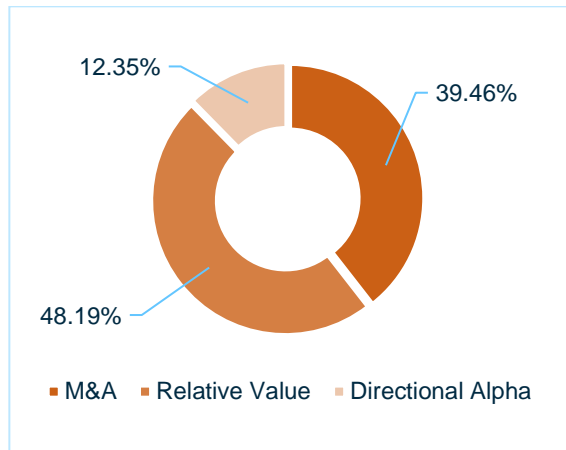


**MONTHLY CONTRIBUTION BY REGION**



**PORTFOLIO POSITIONING**

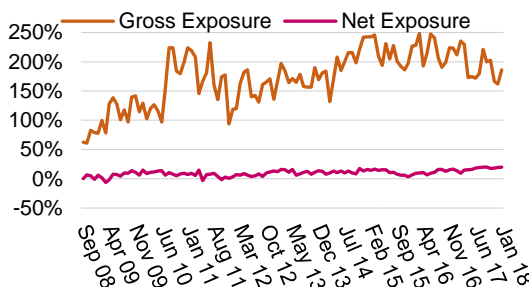
**MONTHLY GROSS EXPOSURE BY STRATEGY**



**EXPOSURE BY REGION AS % OF NAV**

Country	Gross	Adj. Net*
Australia	24.12%	-2.41%
Hong Kong/ China	80.95%	4.63%
India	0.00%	0.00%
Indonesia	5.43%	-2.98%
Japan	24.70%	2.38%
Korea	12.74%	1.55%
Malaysia	9.41%	1.89%
New Zealand	0.00%	0.00%
Singapore	18.66%	8.81%
Philippines	0.00%	0.00%
Taiwan	3.85%	0.00%
Thailand	6.14%	0.85%
USA/Canada	0.00%	0.00%
<b>Total</b>	<b>186.00%</b>	<b>14.71%</b>

**FUND – GROSS AND NET EXPOSURES**



**AWARD**



FOR FURTHER INFORMATION PLEASE VISIT OUR WEBSITE: [PENGANA.COM](http://PENGANA.COM)

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**PENGANA CAPITAL LIMITED**  
 ABN 30 103 800 568 AFSL 226566  
 Level 12, 167 Macquarie Street,  
 SYDNEY, NSW 2000  
 T: +61 2 8524 9900  
 F: +61 2 8524 9901  
[PENGANA.COM](http://PENGANA.COM)

**NSW/ACT**  
**Alex Keen**  
 M: +61 478 971 000  
 E: alex.keen@pengana.com  
**VIC/SA/TAS/WA**  
**Client Service**  
 T: +61 2 8524 9900  
 E: clientservice@pengana.com

**QLD**  
**Rachel Elfverson**  
 M: +61 434 980 561  
 E: rachel.elfverson@pengana.com  
**CLIENT SERVICE**  
 T: +61 2 8524 9900  
 E: clientservice@pengana.com