

PENGANA ABSOLUTE RETURN ASIA PACIFIC FUND

FEBRUARY 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](#)

Portfolio Managers	Antonio Meroni Vikas Kumra
APIR code	PCL0004AU
Redemption price	A\$1.1086
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\$33.1 mil / US\$40 mil
Fund inception date	September 2010
Benchmark	RBA Cash Rate Target

PERFORMANCE COMMENTARY

The Fund finished down -2.2% for the month of February 2018. The HFR Event Driven Index was down -4.4%, whilst Asia Pacific markets fell -3.6%. Of particular note was the fall in the Hang Seng H share index of -8.7%, and the Korean Kospi index of -5.4%. The return of volatility to equity markets is creating opportunities to capture pricing inefficiencies in our relative value and M&A – sub-strategies. We have therefore increased our Relative Value gross exposure to 112% and our M&A exposure to 101%, whilst reducing our Directional Alpha book net exposure to 13.3%. We have also partially hedged the Alpha exposure with puts and put-spread strategies to hedge out potential tail risk. The Fund's net and gross exposures were 13.3% and 242.3% respectively at the end of the month.

M&A

The M&A sub-strategy detracted -0.9%, which brings the 12-month contribution to +3.4%. On the back of the market volatility, we have increased our gross exposure in M&A to 101%, from 73% the previous month. The biggest return contributor was our position in OldTown (OTB MK), where there was a MYR 3.18 cash offer from Jacobs Douwe Egberts Holdings and we have tendered our holding and realised a rate of return of 14%. In Thailand, we have added a new, deal in Laguna Resorts & Hotels (LRH TB).

Detractors for the month included our position in Changyou.com (CYOU US) which fell -8.03%, contributing -24 basis point to performance. CYOU announced the preliminary nonbinding proposal from Charles Zhang, (the chairman of the board of CYOU) and the CYOU board is in the process of reviewing the purchase price of USD42.10. We believe that there is a high probability that a deal could go through, but at a lower price.. In Korea, our position in CJ E&M Corp (130960 KS) fell -4.2%. We bought this

position with the entitlement to dissent to the scrip merger of CJ O Shopping (035760 KS), at KRW 93153, thereby receiving cash. We see upside of 7.6% to the dissent price. In Singapore, Viva Industrial (VIT SP) fell -8% contributing -25 basis points to overall performance. On 29th January, ESR-REIT (EREIT SP) announced a proposal to acquire VIT using their own stock through a scheme of arrangement. We estimate, based on precedent cases, that the merger ratio will be priced off the 180 days average prices of both companies, which would value VIT shares at SG\$0.95. In Japan, our scrip merger in Alpine Electronic (6816 JT) / Alps Electric (6770 JT) suffered -26 basis points. Alps announced a change in the structure of the merger but kept the merger ratio unchanged, despite Alpine revising up the operating profits by 69%. The offer only values Alpine's core business at around 3.5x EV/EBITDA, and we are hopeful that this deal will get bumped, as there is significant public scrutiny.

Relative Value

The relative value book contributed -0.40% during the month. We have used the current volatile market environment to increase our gross exposure in Relative Value from 89% to 113%. A positive contributor was our long position in Keisei Electric Railway (9009 JT) vs short in Tobu Railway (9001 JT) contributing 0.18%. In Korea, our share class preference arbitrage in Hyundai Motors (005385 KS/005380 KS), also benefitted favourably. We have also set up long common shares Samsung Electronics (005930 KS) vs a short in its preference shares (005935 KS), as the ratio hit a low at 1.18.. Negative contributors were our positions in +HSCEI Index / -MSCI Index, +Wheelock (20 HK) / - Wharf Real Estate Investment (1997

THE RETURN OF
VOLATILITY TO
EQUITY MARKETS
IS CREATING
OPPORTUNITIES

HK), +Intouch (INTUCH TB) / -Advanced Info (ADVANC TB), +Komatsu (6301 JT) / - Hitachi Construction (6305 JT).

Directional Alpha

The performance contribution from our Directional Alpha book was -1.2%. Key positive successes during February were CSPC Pharmaceutical (1093 HK) +4.2%, DBS Group Holdings (DBS SP) +8.2%, and Tencent (700 HK)

+5.2%, whilst our detractors included SK Telecom (017670 KS) -9.6%, CK Asset Holding (1113 HK) -9.3% and Yue Yuen (551 HK) -6.2%. The biggest negative contributor was A-Living Services (3319 HK). The A-Living IPO debut date was unfortunately timed for 9th February. The sector had contracted by >-15% by the end of the month. We have locked in gains in Geely (175 HK) and Tencent (700 HK) and added Yakult Honsha (2267 JT) to our Directional Alpha book.

FUND PERFORMANCE

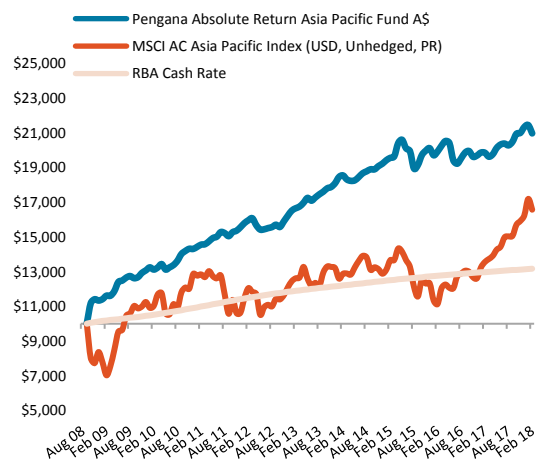
	1 Month	3 Months	6 Months	1 Year	3 Years	5 Years	Since Inception p.a. ^{1,2}
Pengana Absolute Return Asia Pacific Fund	-2.2%	-0.1%	3.4%	5.6%	2.4%	4.7%	8.2%
RBA Cash Rate Target	0.1%	0.4%	0.7%	1.5%	1.7%	2.1%	3.0%
MSCI AC Asia Pacific Index	-3.6%	4.1%	10.2%	22.3%	6.6%	5.6%	5.5%

STATISTICAL DATA

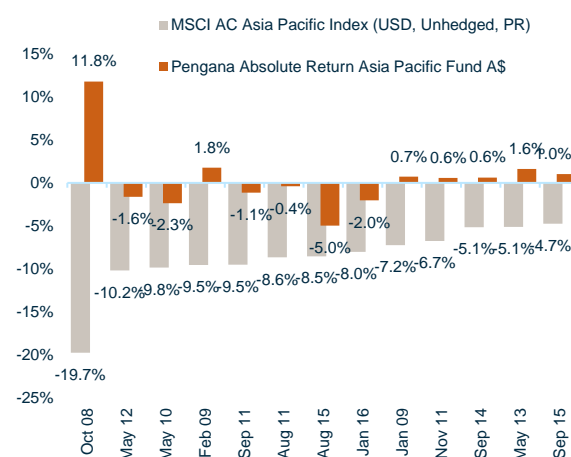
Fund portfolio summary

Volatility ³	6.1%
Beta ⁴	0.03
Number of stocks	80
Maximum draw down	-7.99%
Sharpe Ratio	0.86

PERFORMANCE SINCE INCEPTION⁵

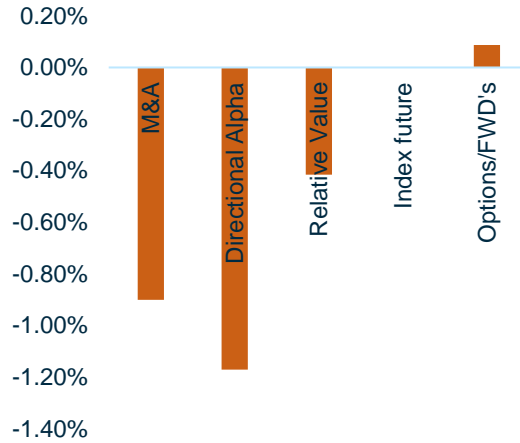


FUND PERFORMANCE DURING MARKET FALLS⁵

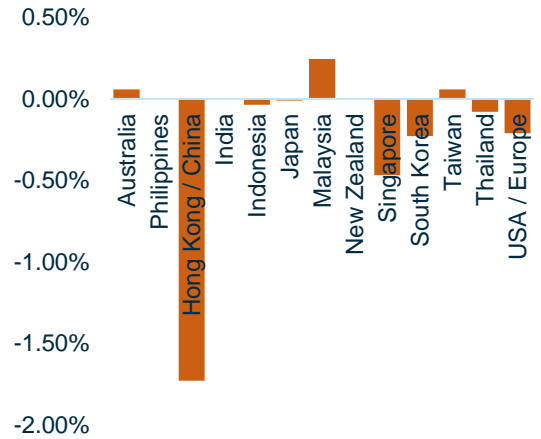


1. Net performance figures are shown after all fees and expenses, and assume reinvestment of distributions. Past performance is not a reliable indicator of future performance. The value of investments can go up and down.
2. The strategy inception date is 1 October 2008. These performance figures show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

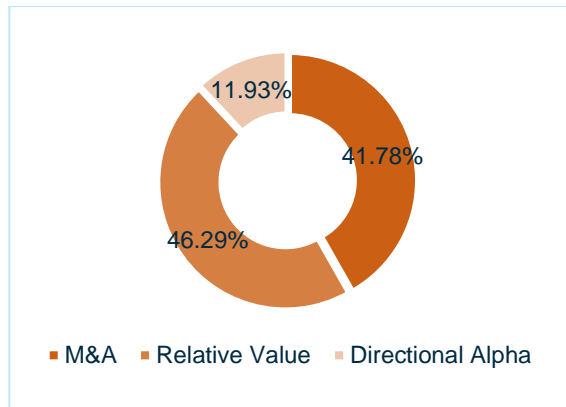


MONTHLY CONTRIBUTION BY REGION



PORTFOLIO POSITIONING

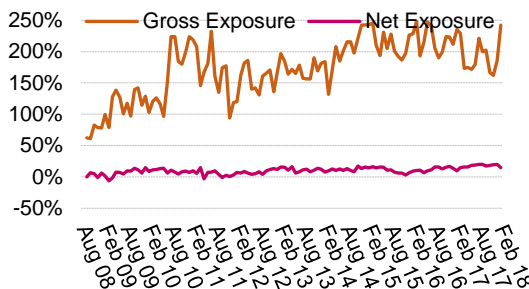
MONTHLY GROSS EXPOSURE BY STRATEGY



EXPOSURE BY REGION AS % OF NAV

Country	Gross	Adj. Net*
Australia	17.88%	1.52%
Hong Kong/ China	101.77%	3.04%
India	4.95%	-0.01%
Indonesia	6.23%	-3.87%
Japan	33.95%	0.44%
Korea	22.30%	1.94%
Malaysia	8.26%	1.41%
New Zealand	0.00%	0.00%
Singapore	21.38%	10.44%
Philippines	0.00%	0.00%
Taiwan	4.14%	0.00%
Thailand	16.34%	0.70%
USA/Canada	5.09%	-2.32%
Total	242.29%	13.29%

FUND – GROSS AND NET EXPOSURES



AWARD



* Excluding M & A, capital structure arbitrage and beta adjusted
Pengana Capital Ltd (ABN 30 103 800 568, Australian financial services license number 226566) is the issuer of units in the Pengana Absolute Return Asia Pacific Fund (the "Fund"). A product disclosure statement for the Fund is available and can be obtained from our distribution team. A person should obtain a copy of the product disclosure statement and should consider the product disclosure statement carefully before deciding whether to acquire, or to continue to hold, or making any other decision in respect of, the units in the Fund. This report was prepared by Pengana Capital Ltd and does not contain any investment recommendation or investment advice. This report has been prepared without taking account of any person's objectives, financial situation or needs. Therefore, before acting on any information contained within this report a person should consider the appropriateness of the information, having regard to their objectives, financial situation and needs. Neither Pengana Capital Ltd nor its related entities, directors or officers guarantees the performance of, or the repayment of capital or income invested in, the Fund. An investment in the fund is subject to investment risk including possible delays in repayment and loss of income and principal invested.

FOR FURTHER
INFORMATION
PLEASE VISIT
OUR WEBSITE:
PENGANA.COM



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

NSW/ACT
Alex Keen
M: +61 478 971 000
E: alex.keen@pengana.com
VIC/SA/TAS/WA
Broc McCauley
T: +61 433 169 668
E: broc.mccauley@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