Cape Leeuwin Capital

Monthly Report
31-May-2005

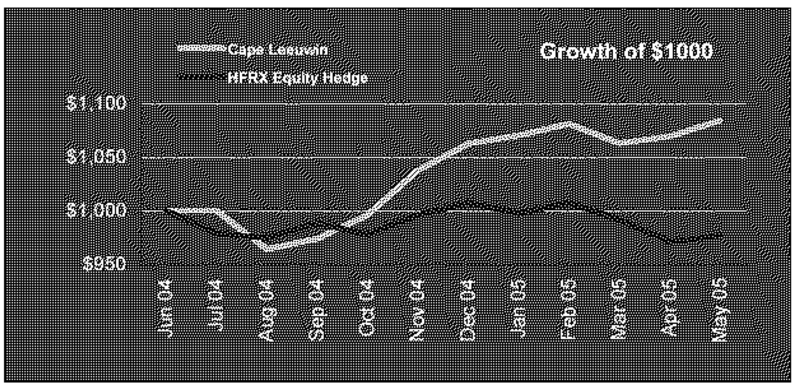
Fund Information

Strategy	Australian long short equity	**Domicile**	Australia, Caymans
Style	Systematic process using long term value and short term earnings and price indicators	**Denomination**	A$ (on and offshore), US$ (offshore)
		Management fee	1.5% per annum
Objectives	Consistent strong performance with a high level of capital protection	**Performance fee**	20% with high water mark
		Redemptions	Monthly
Inception date	Jul-04	**Lock Up**	None
AUM	A$8.0m	**Minimum subscription**	$100,000

Fund Performance

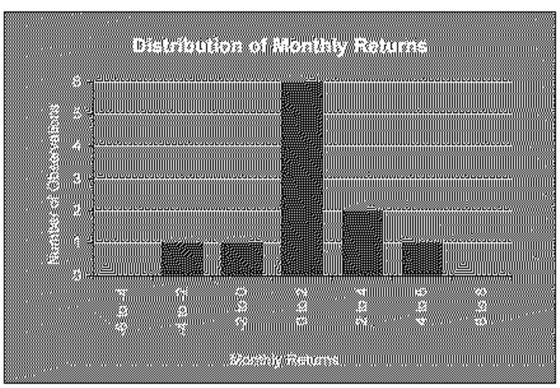
Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year
2005	0.7%	1.0%	-1.7%	0.6%	1.4%								2.1%
2004							0.0%*	-3.6%	1.0%	2.3%	4.2%	2.4%	6.2%

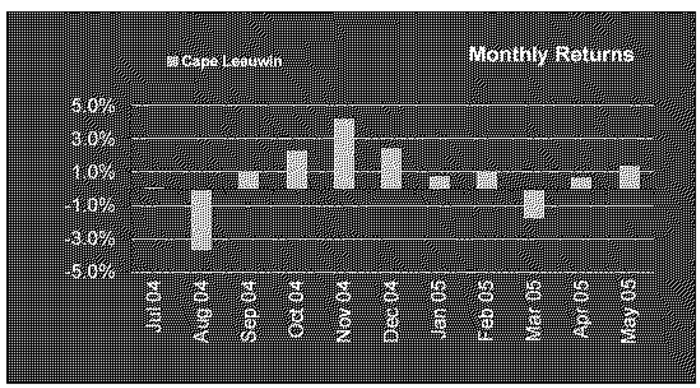
* part month



Performance Analysis

Since Inception	8.4%
Annualised since inception	9.2%
% positive months	81.8%
Best month	4.2%
Worst month	-3.6%
Average positive month	1.5%
Average negative month	-2.7%
Financial year	8.4%





Disclaimer

Cape Leeuwin Capital Pty Ltd
Level 2, The Terraces, 155 George St
Sydney NSW 2000 Australia
Phone: +61-2-9252-2313

Pengana Capital Limited ACN 103 765 082
Level 29, 20 Bond Street
Sydney NSW 2000 Australia
Phone: +61-2-8524-9900

PENGANA CAPITAL

Cape Leeuwin Capital

Monthly Report

31-May-2005

Strategy Description

Cape Leeuwin Capital's management team has significant experience in securities analysis and has developed an investment process that incorporates a combination of short and long-term performance criteria to construct quality, low net exposure portfolios. Cape Leeuwin's underlying investment philosophy is that true value will eventually be recognised by the market. However, stocks may trade at a discount or premium to value for some time and the discount or premium may get larger before true value is realised. The process therefore utilises a discounted cash flow measure as a long term indicator of value and supplements this with 2 short term indicators to help time entry and exit from stocks – earnings revision and price momentum.

The steps in the investment process are 1. key performance indicator analysis, 2. analytical assessment, 3. identify additional opportunities, 4. risk analysis & portfolio construction, 5. execution, 6. portfolio rebalancing. The process selects a core long short portfolio of ASX 100 stocks. The portfolio can be a maximum of 100% long or 100% short, implying a leverage limit of 2x. Single stock positions may not exceed 15% of the portfolio value. No sector limits are imposed but the overall portfolio risk is controlled through the use of VaR analysis, which predicts the maximum loss over a target horizon within a given confidence interval.

Month End Portfolio Analysis

Top 5 positions		Exposure	
BHP	7.0%	Gross Long	58.7%
ANZ	5.6%	Gross Short	58.0%
QBE	4.1%	Net	0.7%
CTX	3.8%	# long holdings	17
MIG	3.8%	# short holdings	20

Risk Analysis (since inception, annualised)

Standard Deviation	7.2%
Downside Deviation	4.2%
Sharp Ratio (5%)	0.58
Sortino Ratio	2.12

Drawdown Analysis

Depth	Length	Recovery	Peak	Valley
-3.6%	1	3	Jul-2004	Aug-2004
-1.7%	1	2	Feb-2005	Mar-2005

Contact Information

Principal:	Risk Management:
Michael Bassett	Nick Griffiths:
+61-2-9252-2313	+61-2-8524-9938
mike@clcapital.com.au	Nick@pengana.com.au
Investment Enquiries:	**Operations:**
Damien Hatfield:	Katrina Glendinning
+61-2-8524-9944	+ 61-2-8524-9950
Damien@pengana.com.au	Katrina@pengana.com.au

Performance and Market Commentary

The Australian equity market (ASX100) changed its bearish tone mid month and finished up +3.0% for May. As mentioned in the April report we expected buying support to emerge and the rally eventually occurred as the pent up cash from takeover activity, capital initiatives and superannuation inflow was redeployed.

Investors switched back into cyclicals. The market rose despite over one hundred profit warnings being registered, albeit mostly confined to small and mid caps. Consumer Discretionary, Consumer Staples, Energy and Industrials outperformed while Utilities Property Trusts and Healthcare lagged the market.

In this environment the portfolio gained 1.4%. It was a tale of two halves. In the first half of the month the portfolio was market neutral and made good gains in a subdued market. However when the buying set in the portfolio was short the more expensive high beta stocks and gave up ground.

We remained market neutral in May and not surprisingly the longs outperformed the shorts with the largest contributions from energy stocks Caltex, Woodside Petroleum and BHP with Macquarie Infrastructure, Rinker, Fairfax and Aristocrat also performing well. The largest detractors to performance came from short positions in Mayne Group, National Australia Bank, Channel Ten, Fosters Group and Patricks.

Although we expected liquidity to support the market we have been surprised by the strength of the rally in the face of continued profit downgrades. We continue to believe the market will be supported in the short term but the top down and bottom up views on profit expectations must eventually be reconciled. We expect the market to remain strong into the end of the financial year but then weaken as it starts to focus on the upcoming reporting season.

Notes

Pengana Capital is a boutique funds manager based in Sydney Australia. In July 2004 Pengana listed Pengana Managers Limited (PML) on the ASX to raise seed capital for new or recently formed hedge fund managers. Pengana provides Cape Leeuwin Capital with seed capital, fund structuring, operational, risk management and marketing support. Cape Leeuwin commenced trading in July 2004.

Service Providers

Offshore Administrator:	Onshore Administrator:	Auditor:	Prime Broker:
Citco Fund Services	BNP Paribas Securities Services	Ernst & Young	UBS AG

Disclaimer

Cape Leeuwin Capital Pty Ltd
Level 2, The Terraces, 155 George St
Sydney NSW 2000 Australia
Phone: +61-2-9252-2313

Pengana Capital Limited ACN 103 765 082
Level 29, 20 Bond Street
Sydney NSW 2000 Australia
Phone: +61-2-8524-9900

PENGANA CAPITAL