Pengana Managers Ltd

Investment Report
October 2005

Company Information

Stock code	PGN	**Listed**	Jun-04	**Sector**	Listed Investment Company - Fund of Hedge Funds

Background

On 28th June 2004 Pengana Managers Limited (PML) listed on the ASX. Utilising the expertise of Pengana Capital, PML raises seed capital for new or recently formed hedge fund managers. Pengana now provides seed capital, fund structuring, operational, risk management and marketing support to a diversified group of Australian domiciled hedge funds. Pengana Capital is a boutique funds manager based in Sydney Australia, which manages both traditional and alternative asset classes.

Performance of underlying investment portfolio

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year
2005	-0.6%	-0.2%	-1.4%	-1.0%	-0.1%	0.4%	-0.3%	1.3%	4.9%	-2.0%**			0.9%**
2004							0.3% *	-0.5%	-1.3%	0.9%	1.6%	0.7%	1.6%

* part month ** estimates

Investment Commentary

The investment portfolio (the assets invested with the underlying managers) returned -2.0% for the month of October. October is often a difficult month in investment markets. The returns of the broader hedge fund industry and equity indexes confirm that this was once again the case in 2005. The hurricane season in the Gulf, energy concerns and faultering equity markets combined to make October a tough one for most managers.

The investment in the Wallace Australia Opportunity Fund (WAOF) was completed during the month. WAOF subsequently achieved a positive return of 1.2% despite the ASX 200 falling by -3.6%. Investors in the local market questioned the ability of companies to maintain margins but the manager successfully anticipated these difficulties. Looking forward it perceives a more favourable outlook for the next few months with recent indicators suggesting Chinese growth and US consumption have been maintained.

The Pengana Absolute Return Real Estate Fund (PARREF) delivered -3.8% in October. Returns were negative across all major regional real estate markets: the UK fell -5.1%, the US -2.4%, Europe -5.2%, Japan -6.4%, and Australia -1.9%. This made for a difficult period in which to deliver returns, particularly given the intra day volatility that was present. PARREF began the period at close to market neutral but as the month progressed the net position was gradually lengthened as substantial sell offs led to a number of opportunities. Most of this positioning was structured around event driven activity. From a regional perspective, capital was increasingly allocated to Japan and Europe over the month and this is expected to remain the case in the near term.

Month End Portfolio Analysis

Breakdown of NTA	
PARREF *	$15,631,105
WAOF *	$9,103,410
Tier 2	$0
Other *	$3,133,576
Total *	**$27,868,091**
* estimates	
NTA per Share	**$0.92**
Asset Allocation	
PARREF	56.1%
WAOF	32.7%
Tier 2	0.0%

Manager Performance for the Month

Pengana Managers:		**Benchmarks:**	
Wallace Absolute Return Fund	1.2% *	HFRX Global Hedge Fund Index	-1.9%
Pengana AR Real Estate Fund	-3.8% *	HFRX Equity Hedge Index	-2.6%
Combined Tier 2	n/a	* estimates	

Hedge Fund Strategies

Pengana Absolute Return Real Estate Fund (PARREF) - long short fund investing in global REITs and property related securities. Relative value, pairs trading, event driven, arbitrage and directional trading strategies employed.

Wallace Australia Opportunity Fund (WAOF) - multi strategy Australian equity focused market neutral fund. Investment in Australian and offshore securities. Cash and derivatives used to manage exposure.

Contact Details

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