

CHAIRMAN'S ADDRESS

PENGANA HEDGEFUNDS LIMITED

ANNUAL GENERAL MEETING 17 NOVEMBER 2006

I would like to briefly comment on the Company's achievements and financial results for the financial year ended 30th June 2006, which I believe, have been a relative success when measured in terms of strategic achievements and investment returns for shareholders.

As you are all aware, Pengana is essentially a Fund of Funds Group offering investors 2 separate streams of potential returns, one being returns on assets placed under management with various hedge fund managers, and the other being returns from the accreted value of our equity stakes in those underlying managers. Incorporated in May 2004 and listed soon after, the Company originally invested \$28 million of shareholder monies in 4 distinctly different hedge fund strategies and styles. These styles encompassed global futures trading, global resources pairs trading, global macro and long short Australian equities. Unfortunately our limited scale, poor initial fund performance and volatile hedge markets during 2005, forced the Company to change its original hedge fund allocations in order to maximize shareholder returns.

As a result, fund allocations to Percon Managed Futures Unit Trust, Camelotfund Global Macro Unit Trust and Stanley Global Resources Market Neutral Unit Trust were redeemed and 2 new investments were subsequently made in Pengana Absolute Return Real Estate Unit Trust and the Wallace Australia Opportunities Fund. I am delighted to advise unit holders that both investments have been successful with the former returning 14.2% over the 12 month period to June 2006 and the latter 18.7% since our investment in October 2005 for an aggregate pre cost 16.8% return. As you all will appreciate, this period has been a challenging one for hedge funds overall with the HFRX Global Hedge Fund Index only producing a 7.8% return for the 12 month period ending 30th June 2006. Security holders should therefore be pleased with the relative performance of our investments even though the broader markets also performed strongly with the ASX 200 up 18.6% for the same period.

The impact of this above-benchmark return has proven positive for the Company and in parallel with our stronger focus on efficient and effective risk management, has combined to produce a net profit after tax for the Group of \$2.6 million which is \$3.6 million above that for the financial year ended 30th June 2005.

Despite these improved investment results however, your Company until very recently continued to trade at a discount to NAV as do many others in the listed investment company sector. Limited scale in funds under management, a narrowly based investment platform with only 2 funds rather than the 8 originally envisaged, constrained liquidity and volatile hedge fund investment markets also hindered our stock price with the Company's stock continuing to trade for much of the year below its issue price. Clearly

this discount was unacceptable to our shareholders and your directors who clearly believed that the Company's sustained long term discount to NAV was not in the best long term interests of any of our stakeholders.

Accordingly in March 2006 the Company deliberately and publicly embarked on a study of alternative solutions that we believed could narrow the discount and provide a long term value-accretive alternative for shareholders. Today's resolutions are the result of these deliberations and promise to transform the Company, if approved by shareholders. Our special thanks in this regard to KPMG, for helping us negotiate the various challenges placed in our way and for their help in negotiating such a positive outcome for shareholders.

The proposal announced on 7th September 2006 introduces new partners to Pengana Hedgefunds Ltd, viz Messrs Mackay and Douglas and their respective NPH interests, as well as a compelling proposal to recapitalize the Group, offering in the process much needed scale and size to our operations, new cornerstone investors to the Group, new management, new focus and a new name: The Magellan Financial Group.

The proposal set out in the Explanatory Memorandum calls for a series of transactions including:

- the liquidation of the Group's existing investments, which has now been completed;
- a sale facility, which gave you an opportunity to sell some or all of your Stapled Securities;
- placements of Stapled Securities to NPH (an ASX-listed investment holding company of which Chris Mackay is Chairman and in which he has a substantial shareholding), NPH Funds (NPH's 60% owned funds management joint venture with Hamish Douglass) and certain Cornerstone Investors, being interests associated with Consolidated Press Holdings Limited, Naomi Milgrom and Simon Leversha;
- a one for five entitlements offer of Stapled Securities and an additional offer of stapled securities both of which will take place in March or April 2007; and
- the grant of options over Stapled Securities in connection with each of these placements and offers.

If approved, these placements and offers in aggregate will lead to an injection of up to \$140 million in new capital to the Group. The placements and offers described above will occur at a price of \$0.975 per Stapled Security being a price calculated on the basis of the adjusted net assets of the Group.

The potential benefit of these structural changes to the Group has already been recognized by the market with our stock price, following the announcement of the Implementation Agreement of the Proposal on 7th September, moving from a discount to

NAV to a recent high of \$2.66. It is thus our hope that shareholders today will view the complex array of interlinked resolutions positively and vote in favor of the resolutions as unanimously recommended by your directors in order to secure what we believe will be the best future for your Group.

However, notwithstanding a substantial turnaround in the Group's stock price and investment fortunes and their recommendation of the Proposal, the Board has mixed feelings because, if the Proposal is approved, for most of them it will mark the end of their association with the Group. However we take comfort from the fact that if this is indeed the case then the next chapter in our history, particularly if our recent stock price is any indication, will hopefully prove to be far more rewarding for you all. For this reason alone we are all greatly appreciative of the opportunity you have given us to lead your Company.