

Bennelong Long Short Equity Fund

Monthly Performance Update

As at 30 September 2016

Market Commentary

Although more volatile than August, share market returns again were quite lacklustre during September (S&P 500 Index -0.1%, MSCI Europe Index -0.1%, MSCI Asia ex Japan +1.4% and Japan Nikkei -2.6%). For the major global indices, there was a notable sell-off early in the month following a short upward spike in bond yields, particularly in Europe following the European Central Bank's decision to not implement further stimulus measures (as widely expected). Share markets then recovered as bond yields rolled back over following the US Federal Reserve deciding not to raise rates at its September meeting and await further evidence of economic progress before taking action. We acknowledge short-term data is hard to draw conclusions from, but we can't help but observe that a month like September is evidence of how captive share markets have become to central bank policy and commentary.

The Australian share market too had a flat month with the S&P/ASX 200 Index up +0.1%. Taking its lead from offshore, movements in long-term bond yields weighed on the interest rate sensitive sectors of Utilities (-3.6%) and REITs (-4.4%). The other notable sector to under-perform was Telecommunications (-4.1%), however this was driven by stock specific issues. On the positive side, the Mining sector again out-performed thanks to further gains in commodity prices, most notably hard coking coal which spiked over 50% in September (and has more than doubled this calendar year) owing to a tightening in the seaborne traded market following production cuts in China alongside resilient steel production. All other sectors of the market posted returns within a range of +/-1%.

Portfolio Commentary

The Fund returned -1.06% for September. Initially, performance was rebounding after last month's disappointing result, including a reversal of some pair positions that weighed on last month's return. However, mid-month the Fund was hit by our telco pair of Long TPG Telecom / Short Telstra following the release of TPG's 2016 earnings result. While the reported result was in-line with expectations, the 2017 profit guidance from the company disappointed investors, falling approximately 7% short of market estimates. In addition, the market reassessed the industry competitive landscape as the rollout of the National Broadband Network (NBN) accelerates, and the stock ended the month down 29.3%. Having met with management and revisited our original investment thesis, we have decided to persist with the pair at this stage, noting much of the disappointment in TPG's earnings guidance reflects transitory issues regarding the integration of TPG's recent acquisition of fellow broadband services provider, iiNet, and not a deterioration in the underlying business. We remain of the view that Telstra as a high cost telecommunications operator has more to lose in a post-NBN world than low cost providers such as TPG. Also of note in September was that despite a relatively benign index performance, stock volatility was high during the month with approximately one third of the S&P/ASX 100 Index recording moves in excess of 5%.

Fund statistics		
Fund NAV A\$M	Month End	\$400.9
Gross exposure A\$M	Month End	\$1,922.6
Fund leverage (x NAV)	Month End*	4.8
Average fund leverage (x NAV)	Since inception	4.3
Fund volatility (annualised)	Month	15.1%
Fund volatility (annualised)	Rolling 12 months	14.7%
Positive months %	Rolling 6 months	33%
Positive months %	Since inception	66%
Sharpe Ratio (basis RBA Cash)	Month	(0.9)
Sharpe Ratio (basis RBA Cash)	Rolling 12 months	0.0
Long exposure	Month End	50.4%
Short exposure	Month End	-49.6%
Fund performance (composite)	Since inception \$1.00	\$10.02

*Gearing calculated subject to variations in accruals.

Top three spreads for the month

Long	Oil Search (OSH)	Short	Santos (STO)
Long	Crown Resorts (CWN)	Short	Skycity Entertainment (SKC)
Long	Challenger (CGF)	Short	ANZ (ANZ)

Bottom three spreads for the month

Long	TPG Telecom (TPM)	Short	Telstra (TLS)
Long	Bluescope Steel (BSL)	Short	Sims Metal (SGM)
Long	James Hardie (JHX)	Short	CSR Limited (CSR)

Performance

1 month	-1.06%
3 months	-5.54%
Fiscal YTD	-5.54%
12 months	2.54%
Since inception (compound p.a.)	17.01%



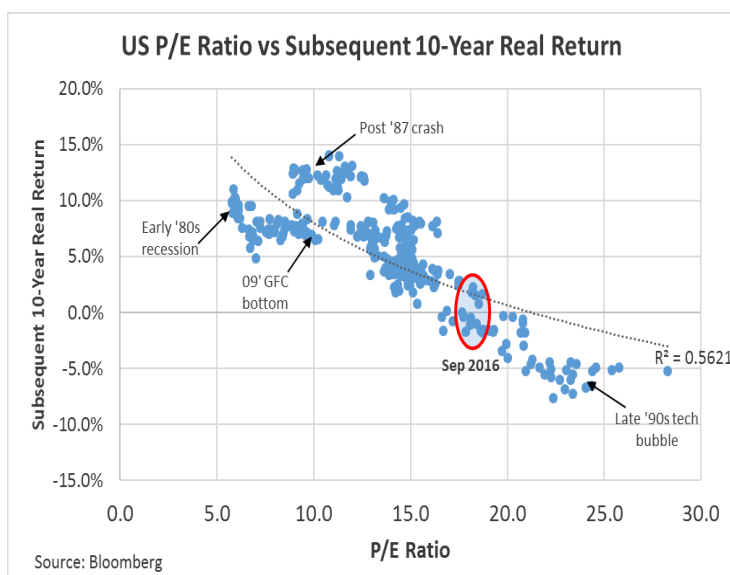
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Outlook

As described in our prior monthly update, we maintain the view that markets do not seem to us to be sufficiently accommodating reduced monetary stimulus in the periods ahead, nor is there an adequate allowance for a pick-up of inflationary expectations. Indeed, the events of September, in which markets wobbled at the mere sniff of less accommodative policy in Europe and Japan, we regard as illustrative that investor sentiment is complacent. Of course, by no means do we have a strong view as to what interest rate normalisation looks like in a post Global Financial Crisis (GFC) world, but as mentioned last month, the idea of the US Federal Reserve anchoring to a zero policy interest rate that was originally set to cope with the GFC seems increasingly inappropriate given substantive evidence that the US economy has both healed itself and significantly de-leveraged.

As an observation, an investor's return experience is heavily anchored to the price paid. This begs the question: is the US S&P 500 Index a good investment today trading on a forward 12-month price/earnings multiple of 17 times? The below chart shows the historical link (since 1960) between the S&P 500 Index price/earnings multiple and subsequent 10-year real return. Naturally the downward sloping data-points show how higher and higher earnings multiples correspond to lower and lower subsequent returns. At the extreme, those buying equities in the late 1990s on multiples above 30 times (due to the technology boom) set themselves up for a negative return over the subsequent decade. When we look at today's price/earnings of 17 times, if history is a guide then investors can expect a real return over the next 10 years of around zero.





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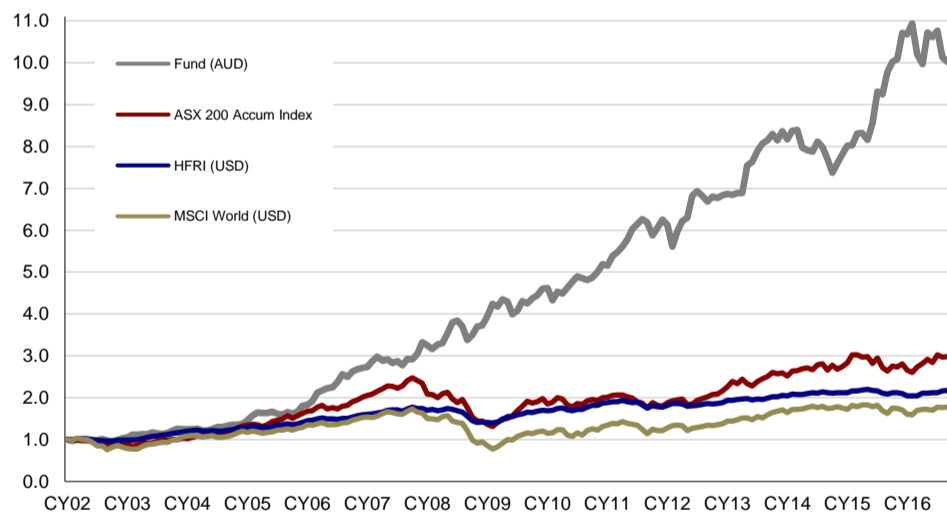
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Calendar year performance

% change cal yr	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	CYTD
2016	-0.29%	2.37%	-6.73%	-2.30%	7.58%	-1.04%	1.46%	-5.90%	-1.06%				-6.46%
2015	2.66%	0.05%	3.59%	0.03%	-1.91%	4.86%	8.85%	-0.69%	5.71%	2.54%	0.65%	6.22%	37.11%
2014	-2.32%	2.50%	0.16%	-4.97%	-0.80%	-0.44%	3.04%	-1.56%	-3.59%	-4.33%	3.12%	2.83%	-6.63%
2013	0.46%	-0.28%	0.69%	0.01%	9.49%	1.10%	3.52%	2.27%	0.83%	1.88%	-1.80%	2.68%	22.48%
2012	-2.04%	-8.43%	6.35%	4.22%	1.19%	8.47%	1.57%	-1.61%	-2.00%	1.69%	-0.41%	0.89%	9.20%
2011	-0.59%	4.39%	1.85%	2.34%	3.09%	4.12%	2.12%	1.91%	-1.25%	-5.06%	3.09%	3.27%	20.60%
2010	0.25%	-6.16%	4.77%	-1.10%	3.24%	2.84%	2.90%	-0.96%	-0.98%	1.23%	2.87%	3.65%	12.71%
2009	5.69%	7.88%	-1.72%	4.26%	-1.24%	-7.16%	2.24%	5.61%	-1.14%	2.65%	1.71%	3.57%	23.64%
2008	-2.10%	-2.82%	3.40%	1.06%	7.07%	7.36%	1.16%	-3.57%	-8.98%	3.78%	5.78%	0.49%	11.95%
2007	0.55%	5.42%	3.62%	-3.12%	0.92%	-2.90%	1.70%	-3.72%	5.63%	-0.22%	4.41%	9.04%	22.51%
2006	1.24%	4.76%	10.16%	2.90%	2.58%	0.95%	5.57%	7.67%	-2.62%	5.22%	2.01%	1.35%	49.91%
2005	6.29%	7.29%	5.01%	-0.49%	-0.27%	1.81%	-2.87%	-1.51%	4.10%	-2.33%	2.88%	8.73%	31.64%
2004	0.19%	0.16%	0.49%	-3.41%	0.78%	2.60%	4.36%	-0.80%	3.22%	1.42%	-0.29%	1.61%	10.59%
2003	2.34%	6.21%	-0.44%	0.61%	0.82%	3.00%	-1.93%	-0.99%	2.01%	4.85%	3.78%	-1.27%	20.33%

Note: The returns highlighted in bold are net returns of the Bennelong Long Short Equity Fund (pre tax) *Composite pro forma CY08. The returns not bolded are "pro forma" net returns of the Bennelong Securities Long Short Equity Fund (Managed Account) (pre tax) Jan 03 to Jun 08

Performance Since Inception



Note: Composite Index comprising Bennelong Securities Long Short Equity Fund (Managed Account) Feb 02 to Jun 08 & Bennelong Long Short Equity Fund from Jul 08

Fund summary

Strategy	Market Neutral, Pairs	Domicile	Australia
Manager	Bennelong Long Short Equity Management Pty Ltd	AUM	A\$725.3m
Status	Soft-close	Currency	AUD
Inception Date	February 2002		

The Fund is managed by Bennelong Long Short Equity Management Pty Limited, a Bennelong Funds Management boutique.

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