Bennelong Twenty20 Australian Equities Fund
Performance update

As at 30 September 2016

Performance

	1 mth	3 mths	6 mths	1 Year	3 years pa	5 years pa	Since Inception** pa
Fund	0.07%	5.71%	9.05%	na	na	na	na
Benchmark*	0.51%	5.24%	9.43%	na	na	na	na
Value added	-0.45%	+0.47%	-0.38%	na	na	na	na

Performance figures are net of fees and expenses. 'Value added' calculation does not use rounded performance figures.
*S&P/ASX 300 Accumulation Index
**Inception date is 2 December 2015

Introduction to the Twenty20 Fund

The Fund has been operating since December 2015. It combines a passive investment in the S&P/ASX 20 Index and an actively managed investment in Australian listed stocks outside this index. The passive investment is one that mimics the performance of the S&P/ASX 20 Index, while the active management seeks to invest in a limited selection of ex-20 stocks that the manager believes will outperform.

The **passive position in the S&P/ASX 20 Index** is achieved by investing individually in each of the index's constituent stocks, including for example Commonwealth Bank, Telstra and CSL. The weighting in each of these 20 stocks approximates the same weight they represent in the S&P/ASX 300. The Fund's overall weight in the S&P/ASX 20 will thus approximate its weight in the S&P/ASX 300. Currently, this weight is approximately 60%.

Given this heavy weight in the S&P/ASX 20, the Fund's largest positions will typically coincide with those of the market, as seen in the table of the Top 10 Holdings.

The **active position in ex-20 stocks** has the goal of allowing the Fund to outperform the broader market. This active investment is managed according to the same strategy adopted in respect of the Bennelong ex-20 Australian Equities Fund. This strategy seeks to identify high quality, strongly growing companies whose earnings prospects are underestimated by the market.

Divergence in the performance of the Bennelong Twenty20 Australian Equities Fund from its benchmark, the S&P/ASX 300, will arise from the relative performance of the Fund's active investment in ex-20 stocks.

The Fund gives broad exposure across the Australian stock market and is available at a low management fee of 0.39% (plus a performance fee where applicable).

Top 10 Holdings
Commonwealth Bank
Westpac Banking
Australia and New Zealand Banking
National Australia Bank
BHP Billiton
Aristocrat Leisure
Telstra
Domino's Pizza
Ramsay Health Care
Wesfarmers

Source: BAEP

The Fund's sector exposures will deviate from the benchmark to the extent that its actively managed investment in ex-20 stocks results in an over or under-weighting to any particular sector.

Sector	Fund Weight	Benchmark* Weight	Active Weight
Discretionary	19.9%	5.5%	14.4%
Consumer Staples	10.1%	7.2%	2.9%
Health Care	9.5%	7.1%	2.4%
Liquidity	1.2%	0.0%	1.2%
Telco's	5.4%	4.9%	0.5%
IT	0.8%	1.5%	-0.7%
Industrials	6.3%	7.3%	-1.0%
Financials	33.6%	35.4%	-1.8%
Utilities	0.0%	2.5%	-2.5%
Energy	1.4%	4.0%	-2.6%
REIT's	3.0%	9.1%	-6.1%
Materials	8.7%	15.6%	-6.9%

*Source: BAEP. *Benchmark is as for the Fund.*

Bennelong Twenty20 Australian Equities Fund
Monthly performance update
As at 30 September 2016

Performance review

As stated on the previous page, the Fund's performance is dictated largely, although not entirely, by the performance of the S&P/ASX 20 Index. Deviation from the benchmark, the S&P/ASX 300, arises to the extent of the Fund's relative performance in respect of its active management of ex-20 stocks.

The Fund delivered a strong return over the September quarter and outperformed the benchmark, owing to outperformance in respect of the ex-20 exposure within the Fund. The Fund's quarterly return was 5.71%, whilst the benchmark returned 5.24%. Over the month of September, the Fund returned 0.07% and the benchmark returned 0.51%.

The Fund's performance over the quarter was helped by the strong performances of a number of the portfolio's largest ex-20 positions. This included **Aristocrat Leisure**, hospital operator **Ramsay Health Care**, wine producer **Treasury Wine Estates**, and travel retailer **Flight Centre**. All of these companies delivered strong full year financial results that were received positively by the market. These companies are summarised below.

Outlook

We continue to believe that equities should continue to provide relatively attractive returns for investors from here. We have been told for some time now that we live in a world of low returns and low growth. Over the past 12 months, the benchmark has returned 13.50%. Furthermore, earnings growth over the next 12 months is expected to be 10.2%, based on consensus numbers for the benchmark. What more do investors want? Admittedly, the future probably isn't as bright as these numbers suggest. The recent past returns probably involve an element of bring-forward from the future, and the consensus growth expectations will likely fall over the course of the year, as would be typical.

However, nor is the future as dire as some would fear. Investors have a number of worries in the back of their mind that are holding them back. These range from a Trump victory, to an Australian housing collapse, to Fed rate rises. Probably as a result, the market is far from bullish at present, with few signs of greed or envy building. For example, many professional investors are in fact holding quite high levels of cash, and retail investors continue to remain wary of margin lending. On the other hand, most investors have come to now appreciate that Brexit and other like events do not materially affect what one should pay for Ramsay Health Care or, for that matter, most ASX-listed companies. Perhaps this is evidence of a market that is underpinned by complacency more than greed. The broader market, as depicted by the S&P/ASX 300 Index, trades at the same levels it did three and ten years ago, with the market's return coming virtually entirely from dividends. Of course, a number of segments of the market have provided much stronger returns than the broader index over those time periods and over the last year. One of the main places to find compelling opportunities has been outside of the top 20. It is here where stocks are generally less owned, less researched and less picked over. It is here where active management - supported by skill and effort – is well rewarded.

Overview of Important Positions

You will note that most of the Fund's largest positions are top 20 stocks. This is the result of the Fund taking a passive position in all of these stocks according to their weight in the index. The Fund employs active management in respect of the ex-20 segment of the market. Here we summarise a number of the Fund's largest ex-20 positions.

Domino's Pizza Enterprises (ASX: DMP) owns the Domino's franchise in Australia, New Zealand, Japan, France, Belgium, the Netherlands and Germany. While it owns and runs a number of stores itself, the majority are run by franchisees. All up, it has over 2000 stores under its control, and together, they sell approximately $2 billion worth of pizzas, garlic bread, chocolate-coated churros, and the like. The company has been extremely innovative in improving its customer offer, most importantly in the fast growing segment of online ordering and delivery. It is also adding to its store network, with current plans for 4,550 stores by 2025. The company's Managing Director is Don Meij, who is an inspirational leader and began his career as a pizza delivery driver in 1987 at the age of 20, and working his way up from there.

Ramsay Health Care (ASX: RHC) is a private hospital operator. Its core business is in Australia, where it is the largest private operator with 70 hospitals. They include North Shore Private, Greenslopes Private, The Avenue Hospital, Fullarton Private and Hollywood Private. It is also the largest private operator in France, where it has 110 hospitals, and it also has smaller operations in the UK and Asia. Globally, the company has 25,000 hospital beds, treats 3 million patients per year, and employs approximately 60,000 people. It is ranked in the top five hospital operators in the world. The company is benefiting from growing demand for hospital services as a result of a growing and ageing population and the innovation of new medical procedures and treatments. The company was founded in 1964 by Paul Ramsay, who passed away in 2014 and left his charitable foundation his shareholding of approximately one-third of the company.

The Star Entertainment Group (ASX: SGR) owns and runs casinos and adjoining hotels. Its flagship casino is The Star in Sydney. This was built in the mid-1990s but it was revamped earlier this decade as part of a $900 million investment into the asset. The company also owns Jupiters on the Gold Coast, which is currently undergoing a refurbishment of its own, and the Treasury in Brisbane. Together, its three casinos currently attract approximately 22 million visitors per annum. The company is also part of a joint venture that won the bid to build the Queen's Wharf casino project in Brisbane, which will involve it relinquishing the Treasury Casino. Its casinos are well positioned in Australia's tourist hot-spots of Sydney and south-east Queensland, and as a result, the company is currently enjoying the benefits of strong growth of inbound tourism, particularly from the Chinese middle-class market.

Aristocrat Leisure (ASX: ALL) is a manufacturer of slot machines and other gaming products. Some of its hits include *Lightening Link*, *Game of Thrones* and *Buffalo Grand*, which are found in pubs, clubs and casinos in 90 countries around the world. Aristocrat is the second largest manufacturer globally, with $2 billion in annual revenues. The company is currently out-designing its peers with more popular and successful games, thereby allowing it to gain market share. The company is also growing its offering of online 'social' casino games such as *Heart of Vegas*. These are available to play through Facebook and mobile apps and, in contrast to physical slots, do not involve gambling to win money. The company was founded in 1953 by Len Ainsworth. It developed the first multi-line slot machine in 1956, the same year slot machines were legalised in Australia.

Treasury Wine Estates (ASX: TWE) produces and distributes wines. The company has in the order of 70 different wine brands, but its focus is on the luxury and 'masstige' markets, and in particular its 'power brands' that include Penfolds, Wynns and Wolf Blass. Its wines are sold in over 70 countries. Globally, it sells approximately 34 million cartons of wine, equating to just over 400 million bottles, and through these sales it generates revenues of over $2 billion. It owns some vineyards – typically those that supply its most prestigious wines and that are located in regions such as the Barossa Valley, Coonawarra, Malborough, and the Napa Valley – but most supply comes from leased vineyards, contracted off-take, and bulk wine markets. Treasury became a separate company in 2011, when it demerged from Fosters Group, but its origins started in the mid-1840s with the establishment of Penfolds. Its business has struggled historically, but it is now in transformation as it reorientates with a marketing-led revival of its power brands, which transformation is also reviving profitability.

Flight Centre (ASX: FLT) is a travel retailer. Most will recognise the company for its Flight Centre branded retail stores, of which there are approximately 700 across Australia, and another 550 stores in 10 other countries. However, Flight Centre is much more diverse than just its namesake stores. For a start, it has a number of other retail formats, including some targeting niches such as Cruiseabout and Student Flights, and all of which are accessible online or through call centres. It also has online-only businesses such as StudentUniverse.com.au, the leading travel booking site for the youth and student market. It has travel experience businesses such as Top Deck which run tours and the like. And it has some travel-related and other businesses such as Travel Money, which operate a currency exchange. And it also has a corporate travel business that is one of the world's largest and accounts for over one-third of the company's total turnover. This business handles work-related travel arrangements for governments, corporates and small businesses. All up, it has 40 travel brands, 2,500 retail shops in 14 countries, 19,000 staff, and it arranges approximately $19 billion worth of travel bookings per annum. The company was founded in 1981 by Graham Turner, who remains at the company and as an executive director.

Bennelong Twenty20 Australian Equities Fund

Monthly performance update

As at 30 September 2016

About BAEP

Bennelong Australian Equity Partners (BAEP) is a boutique fund manager focused on Australian equities. It was founded in 2008 in partnership with Bennelong Funds Management. BAEP is a genuinely active fund manager with a consistent and disciplined investment approach.

BAEP's investment philosophy is to selectively invest:

- in high quality companies;
- with strong growth outlooks; and
- underestimated earnings momentum and prospects.

BAEP's investment process is research-intensive with a focus on proprietary field research and is supported by economic and quantitative insights.

About the Fund

The Bennelong Twenty20 Australian Equities Fund combines an indexed investment in the S&P/ASX 20 Index and an actively managed investment in Australian listed stocks outside of this index. It typically holds 40-55 stocks.

Benefits of the Fund

- BAEP is an award winning and highly rated equities fund manager with an experienced and performance-orientated team.
- The Fund provides a broad exposure to the Australian market via a combination of passive investment (in respect of the S&P/ASX20) and an actively managed investment (in respect of stocks outside of the S&P/ASX20).
- The Fund's ex-20 exposure is managed in accordance with the strategy adopted in the Bennelong ex-20 Australian Equities Fund. This fund is of high conviction and it has a track record of adding value by outperforming the market over the long term.
- The Fund is managed in accordance with BAEP's robust, disciplined and proven investment philosophy and process.

The Fund at a glance

Feature	Fund fact
APIR code	BFL0017AU
Benchmark	S&P/ASX 300 Accumulation Index
Investment objective	2% p.a. above benchmark measured over rolling 3-year periods
Investment manager	Bennelong Australian Equity Partners (BAEP)
Active stock limit	± 10%
Cash limit	0-10%
Inception date	2 December 2015
Recommended investment period	Long term (five years plus)
Buy/sell spread	+/-0.30%
Entry/exit fees	Nil
Management Fee	0.39% p.a. of Net Asset Value of the Fund
Performance Fee	15% of any amount by which the Fund's return is greater than the return generated by the S&P/ASX 300 Accumulation Index

How to invest

The Fund is open to investors directly via the PDS, available on our website.

Platforms
Federation Managed Accounts

Contact details

For more information, call 1800 895 388 or visit baep.com.au

The Fund is managed by Bennelong Australian Equity Partners, a Bennelong Funds Management boutique.