

Touchstone Index Unaware Fund

Performance update

As at 30 September 2016

Performance

	1 month	3 months	6 months	Since Inception**
Fund	+0.47%	+6.63%	N/A	+8.25%
Benchmark*	+0.51%	+5.24%	N/A	+11.31%
Value added	-0.04%	+1.39%	N/A	-3.06%

Performance figures are net of fees and expenses.

*S&P/ASX 300 Accumulation Index

**Inception date is 4 April 2016.

Market Review

The Australian equity market, as measured by the S&P/ASX 300 Accumulation Index, posted a modest gain (+0.5%) in September. Domestic matters largely took a back seat to international influences, with policy settings by global central banks fueling uncertainty. For the September quarter, the market has advanced by +5.2% following strong gains post Brexit early in the period.

Global equity markets also posted modest performances in the month, with the US S&P 500 ending flat. While the US Federal Reserve kept rates unchanged, it signaled that the scope to increase rates had strengthened. In Europe, the ECB left rates on hold, however, the German DAX (-3.8%) was dragged lower on concerns regarding the solvency of its major bank, Deutsche Bank, after it was revealed the bank faced fines as much as \$US14bn from US authorities (which is higher than its market capitalisation). Japan's Nikkei 225 (-1.9%) also underperformed in the month, weighed down by changes to its policy settings by the Bank of Japan. The UK FTSE (+1.8%) and Hong Kong (+1.5%) were amongst the better performing major equity markets.

Bond markets were volatile in the month. After initially rallying in the month as the Fed left rates on hold, subsequent comments that a rate rise might occur as early as next month saw US 10-yr Treasury Bond yields finish the month slightly higher at 1.59%. Other international bond markets finished fairly flat with the exception of the UK and Australian markets. UK 10-yr Gilt yields rose by 12bp to 0.65% and Australian 10-yr Bonds yield rose by 10 bp to 1.92%. The Australian Dollar was stronger in the month, advancing by +1.4 cents to \$0.765 versus the US Dollar.

Australian economic data was mixed in September. GDP for Q2 was stronger than anticipated, rising +3.3% yoy (from 3.0% yoy previously). However, jobs data was mixed. While the rate of unemployment fell from 5.7% to 5.5%, the employment data was soft, falling by 3,900 in August (after rising 26,200 in July). The Reserve Bank of

Australia left the cash rate unchanged at 1.5% at the September meeting.

Commodities were in the main stronger over the month with the exception of iron ore which fell by \$US3.80 to \$US55.20/t. Oil continued its rise late in September as prospects of a production cut by major OPEC producers emerged. Oil ended the month \$US2.02 higher at \$US49.06/bbl. Once again, coking coal was the star performer, rallying strongly by circa 54% in the month to \$US211.5/t. Coal has been very strong over the quarter (+132% qoq), as Chinese domestic coal production cuts and genuine supply tightness lifted the price. Gold retraced after rallying in recent months, falling \$US23.85 to \$US1318.15/oz.


In terms of sector moves, the Materials (+5.6% mom, +14.2% qoq) and Technology (+0.8%, +9.3%) sectors were the strongest performers. In addition, the Consumer Staples sector (+1.7%, +12.5%) also outperformed as it benefitted from a rotation into more defensive names.

Within the Materials sector, Resources stocks (+5.9% mom, +13.4% qoq) were strong performers, retracing from their lows in early calendar 2016. The sector has benefited from firmer commodity prices and significant company cost reduction initiatives. This, together with reduced capital expenditure budgets, has led to a rerating of many resources companies given their strong cashflow generation.

The rotation away from interest rate sensitive sectors, to more defensive or undervalued cyclical sectors, accelerated in September. To this end, Utilities (-3.2% mom, -2.3% qoq), Insurance (-3.2%, -2.1%) and Property Trusts (-4.3%, -2.0%) were the poorer performers. Elsewhere the Telecommunications sector (-4.0%, -6.6%) was also weak. Aside from "yield trade" considerations, a disappointing earnings result and outlook statement from TPG Telecom (-29.3% mom) weighed on the sector with Vocus Communications (-18.0% mom) also falling heavily.

Top 5 Shareholdings

Company	Portfolio Weight
Wesfarmers	8.1%
Westpac Banking Corp	7.8%
National Australia Bank	7.6%
Telstra Corp	6.5%
Star Entertainment Group	6.2%



Touchstone Index Unaware Fund

Monthly performance update

As at 30 September 2016

Performance Review

Over the month the Fund advanced by +0.47%, broadly in line with the market rise of 0.51%. Over the September quarter the Fund posted a strong return of 6.6%, exceeding the market return by 1.4%.

Pleasingly, the outperformance in the quarter was achieved notwithstanding the Fund's large holding of cash. Although cash was the biggest drag in the quarter we are comfortable that our stock selection, coupled with our cash holdings will provide investors with attractive returns over the long term. We have maintained an average cash position in the quarter of circa 12.0%, down from 18% in June.

At the stock level, the Fund's position in quality companies with strong franchises, which are trading at below our assessed intrinsic value, such as Wesfarmers (+3.9% mom, +12.4% qoq) and Star Entertainment Group (+2.0%, +12.9%) added to returns. At the smaller end, our holding in Costa Group (+8.5%, +12.1%) and APN Outdoor (+6.5%) also assisted performance. The Fund initiated a position in APO after the stock fell 42% in late August following disappointing outlook commentary at the 1H16 result. We believe that APO offers exposure to high quality assets, strong growth prospects in the digital outdoor media advertising market underpinned by a quality management team and an attractive valuation. We also increased our exposure to oil with the purchase of Worley during September.

The main detractors over the month and quarter were investments in the Insurance sector. Specifically our holding in QBE (-6.4% mom, -9.1% qoq) was a drag after the market was disappointed in some aspects of its result. We believe that the price fall has created more value in the company as pricing is already firming in a number of insurance lines and cost out programs could drive significant earnings upside from the current cyclical lows.

Our holdings in select "yield sensitive" companies such as Telstra, Goodman Group and Charter Hall were also weaker over the month and quarter. However, all have relatively low leverage, particularly compared to other rate sensitive sectors such as Infrastructure and Utilities (which are generally very highly leveraged) and offer relatively stable growth prospects with an accompanying high yield.

We have maintained a high level of cash in the Fund over the period since inception in order to protect our unitholders in times of market uncertainty and market overvaluation. We will deploy cash at times of market pullback and/or when we see specific opportunities emerging. However, we believe the Fund is well positioned in light of extended financial asset valuations in general and given the heightened geo-political and economic uncertainty going forward.

Market Outlook

Over the September quarter the Australian equity market appears to have shrugged off heightened geopolitical risks and a lacklustre company reporting season and has posted strong returns. However we caution that the outlook for the remainder of the calendar year remains challenging given:

- growth remains subdued,
- the expectation of a rise in US interest rates will continue to fuel short term uncertainty, and
- valuations across a multiple of financial assets are at extreme levels.

As such, the company earnings cycle needs to have greater momentum to justify current valuations.

Touchstone's takeaways:

- i. revenue growth remains difficult – tight cost management takes on added significance;
- ii. highly geared capital structures are riskier in this environment, even with low interest rates; and
- iii. highest level of economic and geopolitical uncertainty and corporate earnings risk since GFC.

We will seek opportunities to deploy our cash holding however downside protection remains at the fore of our investment decisions.



Touchstone Index Unaware Fund
Monthly performance update
As at 30 September 2016

Portfolio Characteristics

	30/9/2016
Forward Year Tangible ROE	21.3%
Forward Year PE	15.3x
Forward Year EPS Growth	7.0%
Forward Year Dividend Yield	4.8%
Forward Year Gross Dividend Yield	6.5%
Net Debt/(Net Debt + Equity)	29.7%
Portfolio Beta	0.96
Tracking Error	3.7%
Portfolio Active Share	70%
Number of Stocks	19

Contact details

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

The Fund is managed by Touchstone Asset Management, a Bennelong Funds Management boutique.

Disclaimer: This information is issued by Bennelong Funds Management Limited (ABN 39 111 214 085, AFSL 296806) (BFML) in relation to the Touchstone Index Unaware Fund. The information provided is general information only. It does not constitute financial, tax or legal advice or an offer or solicitation to subscribe for units in any fund of which BFML is the Trustee or Responsible Entity (Bennelong Fund). This information has been prepared without taking account of your objectives, financial situation or needs. Before acting on the information or deciding whether to acquire or hold a product, you should consider the appropriateness of the information based on your own objectives, financial situation or needs or consult a professional adviser. You should also consider the relevant Information Memorandum (IM) and or Product Disclosure Statement (PDS) which is available on the BFML website, bennelongfunds.com, or by phoning 1800 895 388. BFML may receive management and or performance fees from the Bennelong Funds, details of which are also set out in the current IM and or PDS. BFML and the Bennelong Funds, their affiliates and associates accept no liability for any inaccurate, incomplete or omitted information of any kind or any losses caused by using this information. All investments carry risks. There can be no assurance that any Bennelong Fund will achieve its targeted rate of return and no guarantee against loss resulting from an investment in any Bennelong Fund. Past fund performance is not indicative of future performance. Information is current as at 30 September 2016. Touchstone Asset Management (ABN 34 605 911 519) is a Corporate Authorised Representative of Bennelong Funds Management Limited (BFML), ABN 39 111 214 085, Australian Financial Services Licence No. 296806