



Bennelong Long Short Equity Fund

Monthly Performance Update

As at 31 October 2016

Market Commentary

Share markets were mixed during October with news flow dominated by the looming US federal election and further rises in bond yields globally. The US was the weakest major offshore market with the S&P 500 Index down -1.9%. Other offshore markets fared relatively better and in some cases were positive (MSCI Europe -0.9%, UK FTSE +0.8%, MSCI ex Japan -1.5%, Japan Nikkei Index +5.9%), helped in part by weakness in their currencies against the US dollar (Euro -2%, British pound -5%, Japanese Yen -3%). However, weighing on all share markets indices was a further sell-off in long-dated government bonds with yields having previously touched record lows around early July.

In Australia, the local share market was weak with the S&P/ASX 200 Index down -2.2%. Similar to the trends seen over the last two months, the main market laggards were the interest rate sensitive sectors of REITs and Utilities on the back of a move up in bond yields, as well as the Healthcare sector following a large sell-off in Healthscope and a more general unwind in the large premium valuation of the sector vs the broader market. The other notable sector to under-perform was the Consumer Discretionary sector (-6.3%) with all stocks within the sector down (particularly the casino gaming stocks) except Tatts Group following a merger proposal from Tabcorp. The only two sectors to manage gains over the month were the Banks (+1.5%) and Materials (+1.3%) with the latter led by the resources sector with yet again the bulk commodities (iron ore, coking coal and thermal coal) continuing to rally strongly.

Portfolio Commentary

The Fund returned -1.76% for October marking the 3rd consecutive monthly negative return. This has occurred only twice before in the 177 months of the investment strategy history during what we regard as very similar market conditions in 2014. In that instance, subsequent returns were strong as the unusual market conditions subsided. Performance this month featured a broadly even number of winning versus losing pairs but on balance, gains from the short book didn't quite compensate for losses in the long book. In terms of strongest contributors, our best pair was in healthcare thanks to a short position in Healthscope (a private hospital operator), which fell -28% following a profit downgrade at its Annual General Meeting. Also making a strong contribution were two pairs in the financials sectors, particularly our short position in AMP after announcing further significant issues in claims management within its dominant Life Insurance division. Pairs that detracted from performance included the consumer sector, notably gaming following the surprise arrest in China of members of Crown staff on speculation of gambling violations. Other pairs that detracted from return came from the energy and resources sectors, driven more so by monthly price volatility than fundamental news flow (for example, long Oil Search / short Santos was our best pair in September).

Fund statistics

Fund NAV A\$M	Month End	\$401.8
Gross exposure A\$M	Month End	\$1,838.5
Fund leverage (x NAV)	Month End*	4.6
Average fund leverage (x NAV)	Since inception	4.3
Fund volatility (annualised)	Month	15.2%
Fund volatility (annualised)	Rolling 12 months	14.6%
Positive months %	Rolling 6 months	33%
Positive months %	Since inception	66%
Sharpe Ratio (basis RBA Cash)	Month	(1.5)
Sharpe Ratio (basis RBA Cash)	Rolling 12 months	(0.2)
Long exposure	Month End	51.0%
Short exposure	Month End	-49.0%
Fund performance (composite)	Since inception \$1.00	\$9.84

*Gearing calculated subject to variations in accruals.

Top three spreads for the month

Long	Ramsay Health (RHC)	Short	Primary (PRY) / Healthscope (HSO)
Long	Henderson (HGG)	Short	AMP (AMP)
Long	Challenger (CGF)	Short	ANZ (ANZ)

Bottom three spreads for the month

Long	Star Entertainment (SGR)	Short	Metcash (MTS) / Woolworths (WOW)
Long	Iluka (ILU)	Short	Downer (DOW)
Long	Oil Search (OSH)	Short	Santos (STO)

Performance

1 month	-1.76%
3 months	-8.54%
Fiscal YTD	-7.21%
12 months	-1.76%
Since inception (compound p.a.)	16.77%



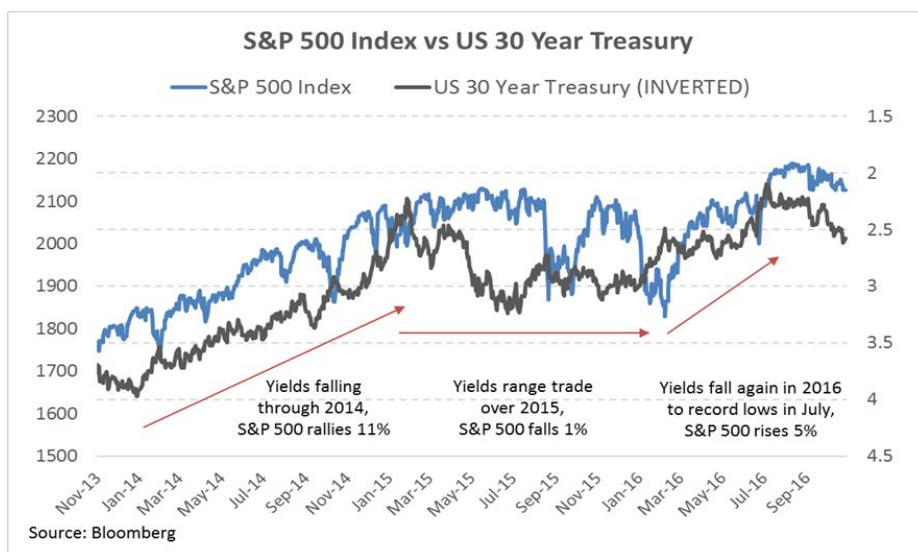
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Outlook

While markets remain on edge over the coming US presidential election, the more lasting issue for equity markets are the valuation implications from either reduced monetary stimulus in the periods ahead or a pick-up of inflationary expectations. With risk-free interest rates being the building blocks in the pricing of riskier financial assets, it is of no coincidence that the pricing of long duration financial assets such as property and equities is influenced by the level of long term government bond yields. To provide some context, the below chart plots the S&P 500 Index over the last several years against the 30-year US Treasury bond yield. Note the yield (on the right vertical scale) is inverted to reflect the inverse nature of yield to price. As shown in the chart, over the last 3 years, the US S&P 500 has moved inversely in price to the level of long-term US treasury yields (with approximately 60% correlation).





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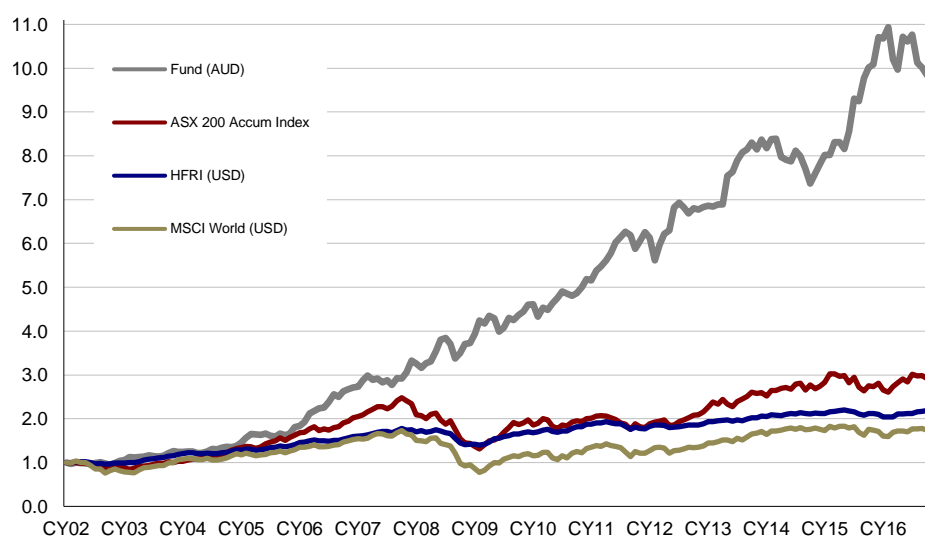
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Calendar year performance

% 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%	-1.76%			-8.11%
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



Fund summary

Strategy	Market Neutral, Pairs	Domicile	Australia
Manager	Bennelong Long Short Equity Management Pty Ltd	AUM	A\$736.3m
Status	Soft-close	Currency	AUD
Inception Date	February 2002		

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

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

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