

Bennelong Twenty20 Australian Equities Fund

Performance update

As at 31 October 2016

Performance

	1 mth	3 mths	6 mths	1 Year	3 years pa	5 years pa	Since Inception ** pa
Fund	-2.20%	-2.86%	4.25%	na	na	na	na
Benchmark*	-2.17%	-3.20%	3.59%	na	na	na	na
Value added	-0.02%	+0.34%	+0.66%	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
Telstra
Domino's Pizza
Aristocrat Leisure
Ramsay Health Care
Treasury Wine Estates

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	21.5%	5.3%	16.2%
Consumer Staples	10.2%	7.1%	3.1%
Health Care	8.2%	6.7%	1.5%
Liquidity	0.7%	0.0%	0.7%
Telco's	5.1%	4.8%	0.3%
IT	0.6%	1.4%	-0.7%
Industrials	5.5%	7.1%	-1.7%
Utilities	0.0%	2.4%	-2.4%
Financials	33.9%	36.4%	-2.5%
Energy	1.4%	4.0%	-2.6%
REIT's	2.7%	8.6%	-5.9%
Materials	10.2%	16.1%	-5.9%

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



Bennelong Twenty20 Australian Equities Fund

Monthly performance update

As at 31 October 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 market was again in retreat in October, returning -2.17%. The Fund was basically on a par with the market, returning -2.20%. As one would expect from these numbers, there was an even balance of relative outperformers and underperformers.

One of the underperformers was Ramsay Health Care, which is a top-10 position in the Fund. Its performance is a good example of why it pays to be selective in respect of the ex-20 segment of the market.

Ramsay Health Care sold off during the month. It did so in sympathy with the weak trading update from peer hospital operator Healthscope. Healthscope announced to the market that it was experiencing soft admissions growth and disappointing revenues and earnings. Healthscope's shares sold off approximately 25%. Ramsay's shares also sold off, presumably because investors assumed soft trading at its hospitals. This is not something that we had seen from our research. Indeed, the company soon clarified to the market that hospital volumes were in line with historical trends, and reaffirmed previous guidance of earnings growth of 10%-12% for the 2017 financial year. However, the shares recovered only some of what was lost as a result of the Healthscope announcement. We expect however that its shares will retrace back over time.

The contrasting operating performances of Healthscope and Ramsay show that it is necessary to be selective when it comes to stock-picking, and that just buying into a sector, or indeed a sub-sector, may not work. This is most pronounced in the ex-20 segment of the market, where the range of outcomes between the disappointments and the outperformers is much greater than in the top 20. In our view, there is a meaningful gap in the quality and prospects of Ramsay compared to Healthscope and for that matter, most other healthcare companies. We believe that the returns investors will achieve from investing in each will reflect these differences.

Outlook

Recent pressure on the stock market is increasingly throwing up more interesting opportunities. As set out in the table below, the market trades on an undemanding forward PE multiple of 16x and offers a yield of 4.6%, which after accounting for franking credits, grosses up to almost 6%. Even with the recent

rise in interest rates, this presents as relatively attractive. One should take caution however, as these metrics incorporate quite bullish expectations of earnings growth. Indeed, the consensus EPS growth for the next 12 months is 11.3%. What happened to the 'new normal' of a low growth world? To give some context however, it is normal for expectations to start too high and be downgraded over the course of the year. It is quite likely that the next 12 months will be no different.

With lofty expectations baked into share prices, it will be important to be invested in companies that can achieve what is expected of them. For us, this entails attempting to gain conviction in earnings delivery. The divergence in the trading updates of Ramsay Health Care and Healthscope shows the necessity to gain this conviction at the individual stock level.

	Fund	Benchmark*
Return on Equity	12.8%	11.3%
Debt/Equity	20.9%	25.9%
Sales Growth	4.9%	3.7%
EPS Growth	11.5%	11.3%
Price/Earnings	17.1x	15.8x
Dividend Yield	4.0%	4.6%
Beta	0.98	1
Active Share	37%	na
No. of Stocks	52	300



Bennelong Twenty20 Australian Equities Fund

Monthly performance update

As at 31 October 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 is managed by Bennelong Australian Equity Partners, a Bennelong Funds Management boutique.

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

Disclaimer: This information is issued by Bennelong Funds Management Limited (ABN 39 111 214 085, AFSL 296806) (BFML) in relation to the Bennelong Twenty20 Australian Equities 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 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 31 October 2016. Bennelong Australian Equities Partners (ABN 69 131 665 122) is a Corporate Authorised Representative of Bennelong Funds Management Limited (BFML), ABN 39 111 214 085, Australian Financial Services Licence No. 296806