

# Bennelong Twenty20 Australian Equities Fund

## Performance update

As at 30 November 2016

### Performance

	1 mth	3 mths	6 mths	1 Year	3 years pa	5 years pa	Since Inception ** pa
Fund	2.19%	0.01%	1.97%	na	na	na	na
Benchmark*	2.80%	1.09%	3.26%	na	na	na	na
Value added	-0.62%	-1.08%	-1.29%	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
BHP Billiton
National Australia Bank
Aristocrat Leisure
Telstra
Domino's Pizza
Fortescue Metals
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	18.1%	5.2%	12.9%
Consumer Staples	9.9%	7.0%	2.9%
Liquidity	0.7%	0.0%	0.7%
Health Care	6.8%	6.4%	0.4%
Telco's	5.1%	4.7%	0.4%
Financials	36.8%	37.1%	-0.4%
Industrials	5.7%	7.1%	-1.4%
IT	0.0%	1.4%	-1.4%
Utilities	0.0%	2.5%	-2.5%
Energy	1.5%	4.1%	-2.6%
Materials	12.5%	16.2%	-3.7%
REIT's	2.9%	8.5%	-5.6%

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



## Bennelong Twenty20 Australian Equities Fund

### Monthly performance update

As at 30 November 2016

#### Performance review

The stock market was up nicely in November. It returned 2.80% and the Fund returned 2.19%.

There were some strong performances from some of our top positions, including from Domino's Pizza and Fortescue Metals Group.

Domino's is currently trading with very strong business momentum. At its AGM held during the month, it was able to upgrade its outlook for the 2017 financial year. In particular, the company upgraded its EBITDA growth guidance to be in the region of 30% (previously 25%). This owes itself to strength in its operations in Australia, New Zealand and Europe. Remarkably, the most mature of Domino's operations, stores in Australia and New Zealand, achieved same store sales growth of an extremely strong 17.7% for the financial year to date. On a longer term view, the company also brought forward EBITDA margin targets to 25% within five years in Europe (from 16% currently), and to 45% in Australia & New Zealand within six years (from 34% currently). It also upgraded the 2025 target store numbers in Europe, which had the effect of increasing the Group target to 4,650 stores (from approximately 2,000 currently). It is signs like these in advancing the business forward that give us confidence in holding a meaningful position in Domino's. We believe it is a very high quality company, with evidently strong growth in the years ahead, a very astute and proactive management team, and terrific and improving business economics.

Another large contributor to performance was Fortescue Metals Group. The company is benefiting from its efforts over the last few years to dramatically reduce unit production costs. Combined with a higher iron ore price, the company is achieving very attractive profits for each ton of iron ore sold. This is having the effect of dramatically raising earnings and cash flows, and correspondingly, a material reduction in debt levels. This has ensured the market has reappraised the quality and valuation of this company over the past year, with its outperformance supporting the Fund's returns.

On the other hand, a number of stocks in which we have selected to invest behind for the Fund have not fared as well. These include Ramsay Health Care, BWX Limited and Aristocrat. In our view, these are all high quality companies with bright long term prospects. Over time, they will grow earnings and value and shareholders will be rewarded accordingly. The Fund has benefited meaningfully from owning these stocks over the years, and we remain comfortable in the Fund's current position in each of them.

At the coal face, and away from the stock market that acts as judge month to month, the companies we selected for the Fund are performing well and in line

with our investment thesis. We believe that their strong and improving business fundamentals will ultimately manifest in strong investment returns. In the meantime, the market is currently focused on style rotations, politics and other unimportant factors.

#### Outlook

The market has been sluggish over the last three to six months. A number of good growth companies have been sold off without any deterioration in company fundamentals. This has opened up some attractive investment opportunities. The market trades on an undemanding forward PE multiple of 15.9x, with expected EPS growth of 13.3%, and offers a yield of 4.6%, which after accounting for franking credits, grosses up to 6.1%. Even with the recent rise in interest rates, this presents as a decent starting yield.

As discussed previously, some caution should be given to the lofty levels of growth expected. Forgotten are the days not many months ago when we were supposedly in a low growth environment. It is likely that the 13% EPS growth rate envisaged by the consensus forecasts will get downgraded over the course of the next 12 months. In our view, strong earnings growth is achievable, if not beatable, within the Resources sector. Here, share prices assume quite conservative commodity prices. However, earnings growth is likely to fall short elsewhere. This is to say that consumer and industrial stocks face quite significant earnings risk, and investors should remain cautious. For us, we are particularly focused on those companies that will be able to deliver or hopefully beat expectations of their earnings.

	Fund	Benchmark*	
Return on Equity	12.9%	10.6%	Premium Quality
Debt/Equity	19.7%	24.1%	
Sales Growth	5.6%	4.0%	Superior Growth
EPS Growth	15.2%	13.3%	
Price/Earnings	16.7x	15.9x	Reasonable Valuation
Dividend Yield	4.1%	4.6%	
Beta	0.90	1	
Active Share	35%	na	Genuinely Active
No. of Stocks	50	300	



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#### 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
- CFS First Wrap
- Macquarie Wrap

#### Contact details

For more information, call 1800 895 388 or visit [baep.com.au](http://baep.com.au)

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

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