



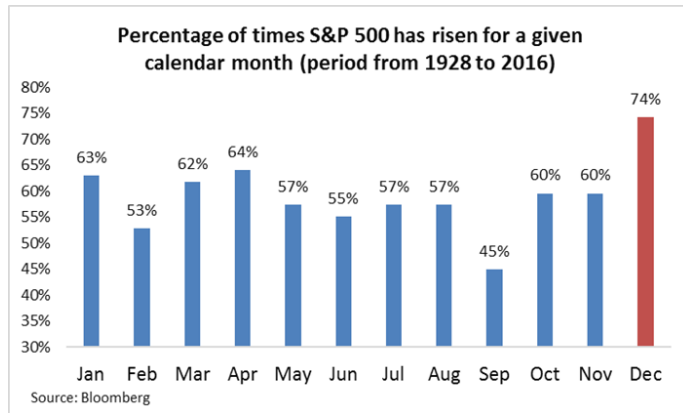
# Bennelong Long Short Equity Fund

## Monthly Performance Update

As at 31 December 2016

### Market Commentary

December saw share markets display their typical Christmas cheer with gains across all the major markets. In saying typical, a review of history shows that December is the highest probability month for a positive return with the US S&P 500 gaining 74% of the time using data dating back to 1928 (see chart below). Such a high success rate stands in contrast to the September month, which historically has fallen more times than it has risen (i.e. only 45% of Septembers since 1928 have ended higher than they started).



Returning to last month, the gain for the US of +1.8% (S&P 500 Index) was more modest than European markets (MSCI Europe Index +5.8%) reflecting the already solid gains seen in November post the US election, a rate hike from the US Federal Reserve and guidance of a further 3 hikes in calendar 2017, and further US\$ strength (now up 6.4% vs the Euro and 5.0% vs the Pound since October). The Australian share market was strong with a return of +4.1% (ASX/S&P 200 Index), bringing the full year calendar price gain to +7.0%. The local market's rally for December was broad-based with all major sectors gaining between 4% and 6%, except for the defensive areas of health, staples and telco which gained less than 2%.

### Fund statistics

Fund NAV A\$M	Month End	\$377.8
Gross exposure A\$M	Month End	\$1,862.6
Fund leverage (x NAV)	Month End*	4.9
Average fund leverage (x NAV)	Since inception	4.3
Fund volatility (annualised)	Month	16.7%
Fund volatility (annualised)	Rolling 12 months	13.1%
Positive months %	Rolling 6 months	17%
Positive months %	Since inception	65%
Sharpe Ratio (basis RBA Cash)	Month	(2.4)
Sharpe Ratio (basis RBA Cash)	Rolling 12 months	(1.1)
Long exposure	Month End	50.8%
Short exposure	Month End	-49.2%
Fund performance (composite)	Since inception	\$9.31
	\$1.00	

\*Gearing calculated subject to variations in accruals

### Top three spreads for the month

Long	Oil Search (OSH)	Short	Santos (STO)
Long	Qantas (QAN)	Short	Flight Centre (FLT)
Long	CSL (CSL)	Short	Sonic Health (SHL)

### Bottom three spreads for the month

Long	Ramsay Health (RHC)	Short	Primary (PRY) / Healthscope (HSO)
Long	Star Entertainment (SGR)	Short	Metcash (MTS) / Woolworths (WOW)
Long	Resmed (RMD)	Short	Ansell (ANN)

### Performance

1 month	-3.23%
3 months	-7.06%
Fiscal YTD	-12.21%
12 months	-13.07%
Since inception (compound p.a.)	16.14%



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### Portfolio Performance

A disappointing December ended a disappointing year. Obviously we are continuously reviewing our positions and as professional investors we are never totally comfortable with the portfolio and are always vigilant as to what can go wrong. During December we made several stock and weightings changes in line with our assessment of risk and reward but on the whole we maintained our core stocks/strategies as we continue to see them delivering positive performance in the future.

Macro factors dominated markets in 2016 driven by policy (Central Banks) and politics (Chinese Government stimulus, OPEC, Brexit, Trump, etc.). All in all, 2016 was a period where bottom up stock picking was extremely treacherous. The last time we saw such a shift in markets was during the Global Financial Crisis. Chart 2 to the right shows the short term returns by style (Australia in black) and Chart 3 shows the longer-term style returns for the Australian equity market. Basically, the only style that added value in 2016 was cyclical value (Chart 2) – following 6 consecutive years of underperformance (Chart 3).

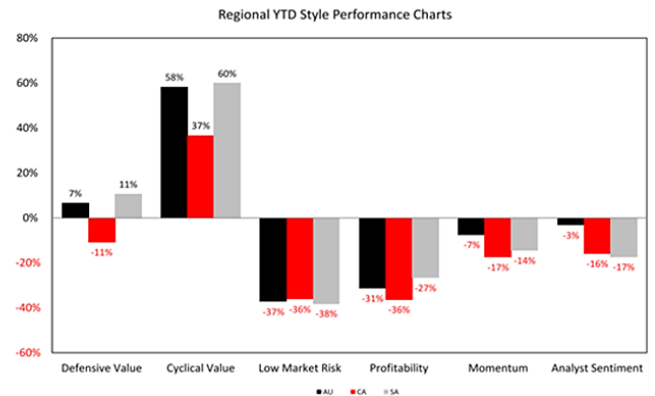
Although our process is not constrained by a particular investing style, our investors will be well aware of our tendency for a proportion of our long positions to migrate towards companies with superior forecast growth and returns (characterised in the charts below by Macquarie as Low Market Risk stocks) and our shorts to reflect inferior forecast growth or high volatility in earnings (characterised in the charts below by Macquarie as Cyclical Value). Clearly the portion of the portfolio exposed to this style has not worked in 2016. We don't believe now is the time to abandon this strategy for the following reasons:

1. This move by cyclical value has been large and looks overbought on a short-term basis but it has been very non-consensus in terms of positioning and has caught many investors underweight and the flow of funds may continue to support it. This flow may moderate but not negate the degree of reversion.
2. Rising global bond yields in response to growth are generally supportive of equity markets and cyclical value. We have been reluctant to embrace this style rotation and have persisted with a cautious view on the 2017 earnings growth outlook. On a risk basis, the trade looks extended and we remain concerned that euphoria has overtaken fundamentals. Election promises of US fiscal stimulus packages remain undefined and unfunded (tax cuts and increased spending?), China debt levels remain a concern and Australian housing and consumer cycles look extended.
3. The geopolitical outlook is more problematic than we can remember and has been discounted by equity markets premised on strong economic growth as loose monetary policy is augmented by fiscal stimulus. We wonder how tolerant or accommodative the central bankers will be if growth does actually accelerate?

In summary, we did make some stock selection errors over the year as well as getting some unpleasant stock specific surprises however markets were particularly unhelpful for fundamental investors on a global basis. Whilst we are bitterly disappointed with this year's performance the team has confidence in the fund strategy and the process. We are fully committed to producing results commensurate with our historical returns.

Chart 2

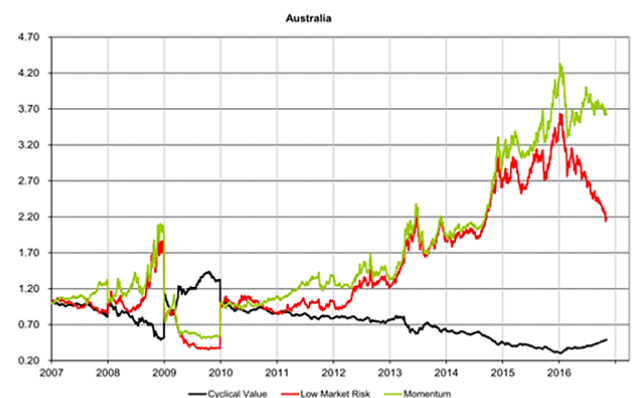
### Regional Style Performance (YTD 2016)



Source: Macquarie Research, Worldscope, Factset, December 2016

Chart 3

### Australia Style Performances



Source: Macquarie Research, Worldscope, Factset, December 2016

### Outlook

One scenario for equity markets in 2017 is a situation where growth does accelerate and drives an earnings recovery but multiple deratings limit index/stock returns as price to earnings ratios normalise. Such growth is premised on fiscal measures being funded and implemented and significant enough to stimulate global economic growth and not be offset by the impacts of a rising US\$, capital flight from emerging markets and protectionist economic policy. Markets seem to have already voted with their feet. Like always there is a lot to worry about but it seems to us that currently the list is a bit longer and a bit scarier eg. US/China relations, Middle East (again/still), European elections, RMB devaluation, protectionism, etc.





# Bennelong Long Short Equity Fund

## Monthly Performance Update

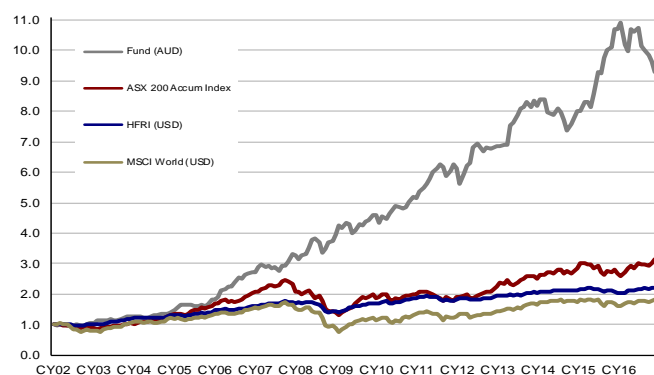
As at 31 December 2016

### Calendar year performance

% change cal yr	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	CYTD
<b>2016</b>	<b>-0.29%</b>	<b>2.37%</b>	<b>-6.73%</b>	<b>-2.30%</b>	<b>7.58%</b>	<b>-1.04%</b>	<b>1.46%</b>	<b>-5.90%</b>	<b>-1.06%</b>	<b>-1.76%</b>	<b>-2.24%</b>	<b>-3.23%</b>	<b>-13.07%</b>
<b>2015</b>	<b>2.66%</b>	<b>0.05%</b>	<b>3.59%</b>	<b>0.03%</b>	<b>-1.91%</b>	<b>4.86%</b>	<b>8.85%</b>	<b>-0.69%</b>	<b>5.71%</b>	<b>2.54%</b>	<b>0.65%</b>	<b>6.22%</b>	<b>37.11%</b>
<b>2014</b>	<b>-2.32%</b>	<b>2.50%</b>	<b>0.16%</b>	<b>-4.97%</b>	<b>-0.80%</b>	<b>-0.44%</b>	<b>3.04%</b>	<b>-1.56%</b>	<b>-3.59%</b>	<b>-4.33%</b>	<b>3.12%</b>	<b>2.83%</b>	<b>-6.63%</b>
<b>2013</b>	<b>0.46%</b>	<b>-0.28%</b>	<b>0.69%</b>	<b>0.01%</b>	<b>9.49%</b>	<b>1.10%</b>	<b>3.52%</b>	<b>2.27%</b>	<b>0.83%</b>	<b>1.88%</b>	<b>-1.80%</b>	<b>2.68%</b>	<b>22.48%</b>
<b>2012</b>	<b>-2.04%</b>	<b>-8.43%</b>	<b>6.35%</b>	<b>4.22%</b>	<b>1.19%</b>	<b>8.47%</b>	<b>1.57%</b>	<b>-1.61%</b>	<b>-2.00%</b>	<b>1.69%</b>	<b>-0.41%</b>	<b>0.89%</b>	<b>9.20%</b>
<b>2011</b>	<b>-0.59%</b>	<b>4.39%</b>	<b>1.85%</b>	<b>2.34%</b>	<b>3.09%</b>	<b>4.12%</b>	<b>2.12%</b>	<b>1.91%</b>	<b>-1.25%</b>	<b>-5.06%</b>	<b>3.09%</b>	<b>3.27%</b>	<b>20.60%</b>
<b>2010</b>	<b>0.25%</b>	<b>-6.16%</b>	<b>4.77%</b>	<b>-1.10%</b>	<b>3.24%</b>	<b>2.84%</b>	<b>2.90%</b>	<b>-0.96%</b>	<b>-0.98%</b>	<b>1.23%</b>	<b>2.87%</b>	<b>3.65%</b>	<b>12.71%</b>
<b>2009</b>	<b>5.69%</b>	<b>7.88%</b>	<b>-1.72%</b>	<b>4.26%</b>	<b>-1.24%</b>	<b>-7.16%</b>	<b>2.24%</b>	<b>5.61%</b>	<b>-1.14%</b>	<b>2.65%</b>	<b>1.71%</b>	<b>3.57%</b>	<b>23.64%</b>
<b>2008</b>	<b>-2.10%</b>	<b>-2.82%</b>	<b>3.40%</b>	<b>1.06%</b>	<b>7.07%</b>	<b>7.36%</b>	<b>1.16%</b>	<b>-3.57%</b>	<b>-8.98%</b>	<b>3.78%</b>	<b>5.78%</b>	<b>0.49%</b>	<b>11.95%</b>
<b>2007</b>	<b>0.55%</b>	<b>5.42%</b>	<b>3.62%</b>	<b>-3.12%</b>	<b>0.92%</b>	<b>-2.90%</b>	<b>1.70%</b>	<b>-3.72%</b>	<b>5.63%</b>	<b>-0.22%</b>	<b>4.41%</b>	<b>9.04%</b>	<b>22.51%</b>
<b>2006</b>	<b>1.24%</b>	<b>4.76%</b>	<b>10.16%</b>	<b>2.90%</b>	<b>2.58%</b>	<b>0.95%</b>	<b>5.57%</b>	<b>7.67%</b>	<b>-2.62%</b>	<b>5.22%</b>	<b>2.01%</b>	<b>1.35%</b>	<b>49.91%</b>
<b>2005</b>	<b>6.29%</b>	<b>7.29%</b>	<b>5.01%</b>	<b>-0.49%</b>	<b>-0.27%</b>	<b>1.81%</b>	<b>-2.87%</b>	<b>-1.51%</b>	<b>4.10%</b>	<b>-2.33%</b>	<b>2.88%</b>	<b>8.73%</b>	<b>31.64%</b>
<b>2004</b>	<b>0.19%</b>	<b>0.16%</b>	<b>0.49%</b>	<b>-3.41%</b>	<b>0.78%</b>	<b>2.60%</b>	<b>4.36%</b>	<b>-0.80%</b>	<b>3.22%</b>	<b>1.42%</b>	<b>-0.29%</b>	<b>1.61%</b>	<b>10.59%</b>
<b>2003</b>	<b>2.34%</b>	<b>6.21%</b>	<b>-0.44%</b>	<b>0.61%</b>	<b>0.82%</b>	<b>3.00%</b>	<b>-1.93%</b>	<b>-0.99%</b>	<b>2.01%</b>	<b>4.85%</b>	<b>3.78%</b>	<b>-1.27%</b>	<b>20.33%</b>

**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



**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

Fund Summary			
<b>Strategy</b>	Market Neutral, Pairs	<b>Domicile</b>	Australia
<b>Manager</b>	Bennelong Long Short Equity Management Pty Ltd	<b>AUM</b>	A\$681.5m
<b>Status</b>	Soft-close	<b>Currency</b>	AUD
<b>Inception Date</b>	February 2002		

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

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