Bennelong Concentrated Australian Equities Fund
Monthly performance update

As at 31 January 2017

Performance

	1 mth	3 mths	6 mths	1 Year	3 years pa	5 years pa	Since Inception** pa
Fund	2.12%	3.40%	-1.39%	13.18%	15.87%	17.85%	17.38%
Benchmark*	-0.77%	6.44%	3.03%	17.32%	7.37%	10.36%	10.70%
Value added	+2.90%	-3.04%	-4.42%	-4.14%	+8.49%	+7.49%	+6.68%

Performance figures are net of fees and gross of any earnings tax. 'Value added' calculation does not use rounded performance figures.
*S&P/ASX 300 Accumulation Index
**Inception date is 30 January 2009

Source: BAEP

Portfolio positioning

Portfolio Sector Allocation

Sector	Fund Weight	Benchmark* Weight	Active Weight
Discretionary	23.6%	5.0%	18.6%
Health Care	16.8%	6.6%	10.3%
Consumer Staples	13.7%	6.8%	6.9%
Materials	20.9%	17.1%	3.8%
Liquidity	0.2%	0.0%	0.2%
IT	0.0%	1.3%	-1.3%
Utilities	0.0%	2.6%	-2.6%
Industrials	3.6%	6.5%	-2.9%
Energy	0.0%	4.3%	-4.3%
Telco's	0.0%	4.4%	-4.4%
REIT's	0.0%	8.3%	-8.3%
Financials	21.2%	37.2%	-16.0%

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

Top Holdings

Westpac Banking
National Australia Bank
CSL
Aristocrat Leisure

Source: BAEP

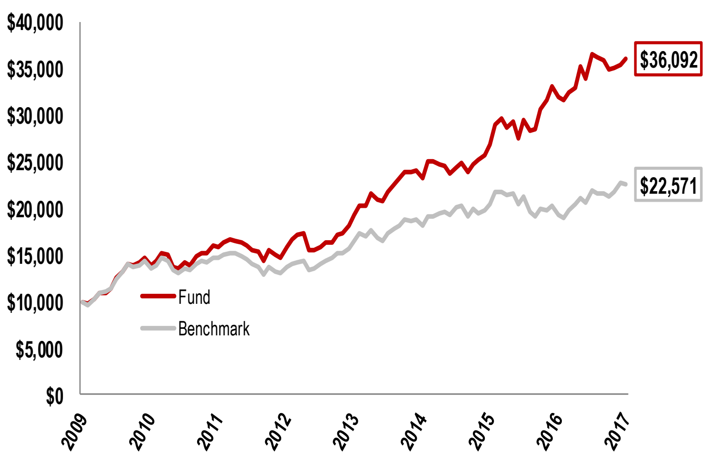
Portfolio characteristics

	Fund	Benchmark*	
Return on Equity	15.0%	11.8%	Premium Quality
Debt/Equity	14.5%	24.8%	
Sales Growth	7.5%	4.3%	Superior Growth
EPS Growth	14.0%	12.0%	
Price/Earnings	17.9x	15.8x	Reasonable Valuation
Dividend Yield	3.3%	4.6%	
Beta	0.97	1	
Active Share	74%	na	Genuinely Active
No. of Stocks	18	299	

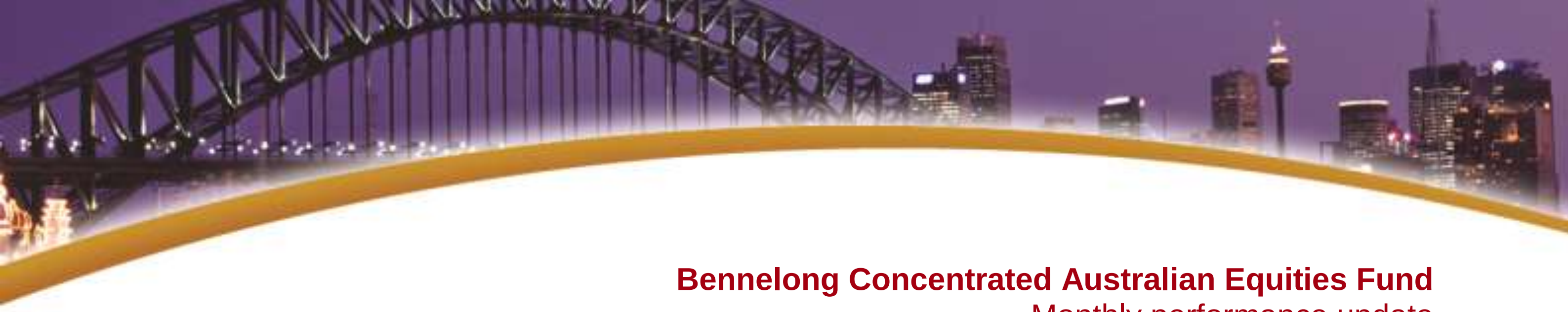
*Source: BAEP. *Benchmark is as for the Fund.*

Long-term performance

Growth of $10,000 Since Inception



Source: BAEP



Performance Review

The stock market struggled in January. The Fund itself beat the market, posting a reasonable return of 2.12% for the month. More importantly however, the Fund continues to outperform over the long term, delivering strong absolute returns for clients.

The Fund benefited from strong performances from some of the largest positions, including BWX, Treasury Wine Estates, CSL, and Resource stocks Fortescue Metals Group and Rio Tinto. On the other hand, the Fund's position in Domino's Pizza Enterprises detracted from performance.

The latter part of 2016 saw a dramatic rotation in the market - from quality, growth and yield stocks that were in favour during the last few years; to cyclical, value and resource stocks. Given a focus on quality and growth, the rotation has been difficult for the Fund's performance. Many of the Fund's largest positions suffered from a derating in their shares. This is to say that the market marked down the PE multiple it was willing to ascribe to these companies' earnings. In general, the derating was not accompanied by any deterioration in company fundamentals. Indeed, in some cases, the fundamentals actually improved, most importantly as against what was previously expected. For example, Domino's upgraded its earnings outlook at its AGM in November, and guided to a brighter longer term outlook. Nevertheless, Domino's shares fell from a high of $80 in August just after it posted its FY16 earnings result, to below $60 at the end of January. It is sometimes interesting to see significant under or outperformance over periods in which there is a vacuum of information, such as between the reporting seasons of February and August. Ultimately, it will be the facts around a company's fundamentals that will drive longer term investor returns, rather than the 'story' around a stock, style or sector.

In our view, the market's rotation has been dramatic and has largely played out. For example, the rotation from growth to value has left many of the so-called value stocks trading on relatively high multiples, especially given the quality and earnings power of the underlying businesses. For example, many of the structurally challenged old media companies trade on PE multiples of 14 to15 times. Many of the value stocks are relying on cyclical or other growth factors to achieve earnings in line with expectations. To the extent that they do not, it is quite likely that their shares will disappoint. Indeed, it will be interesting to see how some of the cyclical and value stocks report this earnings season, and whether the recent optimism is justified. In our view, investors should be cautious among the cyclical and value stocks that have performed well of late. On the other hand, one can find good opportunities in the quality and growth stocks that have sold off. We have a number of them in the Fund.

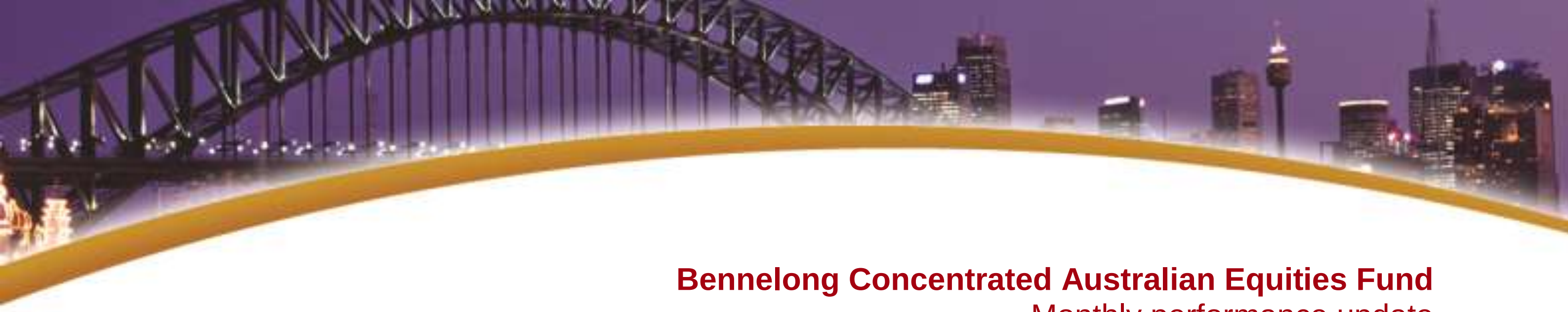
Interestingly, the dispersion of valuation metrics has narrowed dramatically between the lowest and highest rated stocks in the market. Indeed, on Credit Suisse's estimates, the difference in the PE multiples between the quartile of stocks with the highest PEs and the lowest PEs is at lows not seen since back in 2007, and before that, in 1993. This means that investors need only pay a relatively small premium for the highest quality and fastest growing companies. This will become more pronounced later this year as investors begin to look forward to FY18 earnings numbers, when one takes into account the stronger growth of the higher rated names, and when the dispersion therefore reduces even further.

The upshot is that regardless of whether the stock is a small cap or large cap, value or growth stock, quality or cyclical, or is in the healthcare or retail sector, it will be the company's actual results that will dictate shareholder returns. This was illustrated during the month by the divergent performances of CSL, a stock which is a large holding within the Fund, and Brambles, which is not owned. CSL is one of a number of high quality growth stocks that have come under pressure with the market's rotation away from these types of stocks in recent months. In January, CSL upgraded its FY17 earnings guidance from 11% to 18%-20%. A large reason for its operational strength owes itself to the company's quality, and in particular its ability to deal with industry issues and to take advantage of competitors' woes. The stock gained 12% over the month. In contrast, Brambles downgraded earnings guidance for the financial year, citing weakness in its US based business, leading to its shares to fall 18% over the month. Like CSL, Brambles is a global large cap company that the market generally views as a high quality business, with defensive earnings, high barriers to entry, and structural growth (we would argue against this view). The difference in corporate and share price performances of these two similar stocks indicates that corporate fundamentals still matter.

Outlook

The market currently trades on a very reasonable PE multiple of just under 16 times the next 12 months' earnings. This equates to an earnings yield of 6.3%, which compares very favourably to the starting yields on other assets. While a lot has been made of the lift in interest rates, they remain at very low levels. The 10-year Government Bond for example yields less than 2.8%, with no growth. In this context, there is a reasonable case to be made for the continued strength in equities. However, we believe that it still pays to be selective.

As always, we remain focused on the company fundamentals, with an eye on value, but only in the context of what one receives in return in terms of quality and earnings delivery and growth. Particularly in an environment of macro and political uncertainty, we believe it prudent to focus on these attributes.



Bennelong Concentrated Australian Equities Fund

Monthly performance update

As at 31 January 2017

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 Concentrated Australian Equities Fund typically holds 20-30 stocks across the entire spectrum of the Australian sharemarket. It primarily holds stocks from the S&P/ASX300 Index, although it is not limited to holding stocks in this index.

<u>Benefits of the Fund</u>

- BAEP is an award winning and highly rated equities fund manager with an experienced and performance-orientated team.
- BAEP is a genuinely active and high conviction fund manager, meaning potentially significant deviation from the benchmark and with prudently concentrated portfolios.
- The Fund comprises a concentration of some of BAEP's best stock ideas.
- The Fund 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 facts
APIR code	BFL0002AU
Benchmark	S&P/ASX 300 Accumulation Index
Investment objective	4% 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	30 January 2009
Recommended investment period	Medium to longer term (five years plus)
Buy/sell spread	+/-0.30%
Entry/exit fees	Nil
Management Fee	0.85% p.a. of Net Asset Value of the Fund
Performance Fee	15% of any amount by which the Fund's return is more than 2% 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, or via a range of platforms.

Platforms
BT Wrap
Federation Managed Accounts
Hub24
Netwealth: Super Service, Wrap Service
Macquarie Wrap
Wealthtrac

Contact details

For more information, call 1800 895 388 or visit <u>baep.com.au</u>

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