Bennelong Twenty20 Australian Equities Fund
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	-0.48%	4.36%	1.37%	12.74%	na	na	na
Benchmark*	-0.77%	6.44%	3.03%	17.32%	na	na	na
Value added	+0.29%	-2.08%	-1.65%	-4.58%	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
BHP Billiton
Australia and New Zealand Banking
National Australia Bank
Aristocrat Leisure
Telstra
Treasury Wine Estates
Domino's Pizza
CSL

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	18.7%	5.0%	13.7%
Consumer Staples	11.7%	6.8%	4.8%
Health Care	7.5%	6.6%	0.9%
Liquidity	0.2%	0.0%	0.2%
Telco's	4.4%	4.4%	0.0%
IT	0.0%	1.3%	-1.3%
Industrials	5.1%	6.5%	-1.4%
Financials	35.2%	37.2%	-2.0%
Utilities	0.0%	2.6%	-2.6%
Energy	1.5%	4.3%	-2.8%
Materials	13.1%	17.1%	-4.0%
REIT's	2.6%	8.3%	-5.6%

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

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BAEP
Bennelong Australian Equity Partners

Bennelong Twenty20 Australian Equities Fund
Monthly performance update
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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 struggled in January, returning -0.77%. The Fund performed better than the market, returning -0.48%.

The Fund's relative performance benefited from decent advances in some of the larger ex-20 positions, including Treasury Wine Estates and Fortescue Metals Group. 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 just above $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 to 15 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, and that may not live up to earnings expectations. 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 needs 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.

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, particularly in respect of ex-20 stocks.

As always, we remain focused on 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.

	Fund	Benchmark*	
Return on Equity	13.4%	11.8%	Premium Quality
Debt/Equity	18.4%	24.8%	
Sales Growth	6.1%	4.3%	Superior Growth
EPS Growth	13.9%	12.0%	
Price/Earnings	16.5x	15.8x	Reasonable Valuation
Dividend Yield	4.1%	4.6%	
Beta	0.98	1	
Active Share	35%	na	Genuinely Active
No. of Stocks	52	299	

Source: BAEP

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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
• AMP Personalised Portfolio
• CFS First Wrap
• Federation Managed Accounts
• Macquarie Wrap

Contact details

For more information, call 1800 895 388 or visit baep.com.au

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