

Bennelong Concentrated Australian Equities Fund

Monthly performance update

As at 30 April 2017

Performance

	1 mth	3 mths	6 mths	1 Year	3 years pa	5 years pa	Since Inception** pa
Fund	2.91%	8.28%	11.96%	18.35%	16.46%	17.70%	17.96%
Benchmark*	0.98%	6.57%	13.43%	17.50%	7.26%	10.76%	11.22%
Value added	+1.93%	+1.71%	-1.47%	+0.85%	+9.20%	+6.94%	+6.74%

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

Portfolio positioning

Portfolio Sector Allocation			
Sector	Fund Weight	Benchmark* Weight	Active Weight
Discretionary	26.6%	5.0%	21.6%
Health Care	20.3%	7.0%	13.4%
Consumer Staples	16.6%	7.0%	9.6%
Liquidity	2.0%	0.0%	2.0%
IT	0.0%	1.3%	-1.3%
Industrials	5.3%	6.9%	-1.7%
Utilities	0.0%	2.7%	-2.7%
Telco's	0.0%	3.6%	-3.6%
Energy	0.0%	4.2%	-4.2%
Materials	7.7%	15.4%	-7.7%
REIT's	0.0%	8.5%	-8.5%
Financials	21.5%	38.5%	-17.0%

Source: BAEP. *Benchmark is as for the Fund

Top Holdings

CSL
Westpac Banking
National Australia Bank
Aristocrat Leisure

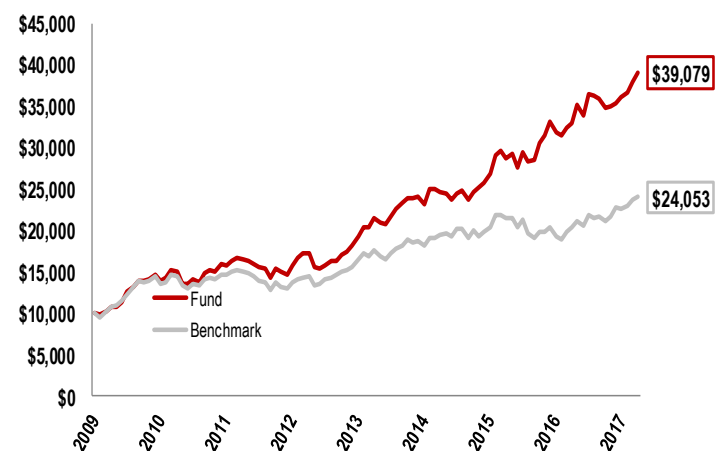
Portfolio characteristics

	Fund	Benchmark*	
Return on Equity	17.3%	12.0%	Premium Quality
Debt/Equity	15.6%	24.8%	
Sales Growth	10.3%	4.3%	Superior Growth
EPS Growth	16.5%	11.9%	
Price/Earnings	20.0x	16.1x	Reasonable Valuation
Dividend Yield	3.1%	4.4%	
Beta	0.92	1	
Active Share	74%	na	Genuinely Active
No. of Stocks	17	300	

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

Long-term performance

Growth of \$10,000 Since Inception



Source: BAEP



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Performance review

The stock market had a reasonable month in April, delivering a return of approximately 1%. The Fund outperformed the market, with a return of 2.91%.

More importantly however, the Fund continues to deliver for our clients strong absolute returns and outperform the market over the long term.

Some of our larger stock positions performed well over the month, including Aristocrat Leisure, BWX, CSL and Domino's Pizza Enterprises. We also benefited from having no exposure to the Telecommunications sector, which was very weak. On the negative side, our small and selective exposure in the Retail sector detracted from performance.

Illustrating our investment approach

Our long term investment in the Telecommunications sector is illustrative of our investment approach.

We have previously owned TPG Telecom in the Fund. Indeed, it was once one of the largest positions, and for example in late 2015 it represented just over 7.5% of the Fund. Six months ago we had sold out of the stock. It has been a strong contributor to the Fund's long-term performance.

For five years until last year, the Telecommunications sector was one of the strongest performing sectors. The industry giant, Telstra, gained from:

- a low starting valuation. Its shares traded at just above \$2.60 in late 2010;
- growing attraction for its fully franked dividend, as part of the 'yield trade' that accompanied lower and lower interest rates; and
- strength in its mobile business, particularly as offshore-owned Vodafone and Optus were having troubles.

Elsewhere in the sector, broadband focused players like TPG Telecom and Vocus Communications also delivered strong returns. Both benefited from industry consolidation. Each acquisition they made over the years added customers and came with costs that duplicated what was already being incurred and were therefore easily cut out. And as a result, both enjoyed strong growth in scale and profitability.

More recently, the industry has started to suffer as the level of competition has lifted. The aggregate pool of revenues in the telecommunications industry is resilient but grows only slowly. To grow faster, one must take it away from a competitor.

In mobile, Vodafone and Optus are now trying to recover from past difficulties such as 'Vodafail' that saw them lose meaningful market share; meanwhile

Telstra is looking to defend the gains it made at their expense. This is causing greater competition, best seen through higher capital investment in mobile networks and pressure generally on mobile plan pricing. The industry's profit pool, as measured by EBITDA, has basically flat-lined for the last four-half year periods.

During the month, TPG Telecom announced that it was entering the mobile market. This came through the acquisition of necessary spectrum for \$1.2 billion and a proposal to build out a new network for \$600 million that will admittedly only cover 80% of the Australian population. TPG's move will likely cause even greater competition, which in turn will further pressure revenues and margins.

In broadband, Telstra, TPG and Vocus are also dealing with quite intense competition. They are also facing higher network costs as they transition to the NBN. Partly as a result of these factors, we are of the opinion that the market is overestimating earnings for their broadband businesses.

The industry changes will likely benefit customers at the expense of shareholders. This month, Telstra, TPG and Vocus made up three of the worst performers in the top 100 stocks of the market, each falling by between 9 and 21%.

We were able to enjoy the industry's strong returns on the upside. Indeed, we were able to do so by investing in the stock that performed best in the sector over our holding timeframe, TPG Telecom. We were then able to avoid the more recent troubles that have befallen the industry.

Our investment in, and eventually out of, TPG Telecom evidences our disciplined approach to investing. As always, we make investment decisions based on the company fundamentals. In TPG's case, the fundamentals changed, whilst the risks became underappreciated, and the earnings expectations got ahead of what was deliverable.

Outlook

The market currently looks positioned to offer reasonable returns for long-term investors, especially compared to other asset classes such as bonds and property. The stock market's relative appeal follows from the following:

- a PE multiple of 16x the next twelve months earnings, which equates to an earning yield of 6.3%;
- a dividend yield of 4.4%. This implies that only about 70% of earnings are paid out as dividends, leaving the remaining 30% to be reinvested back into the business for future growth. This dividend yield of 4.4% also comes with a level of franking



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credits. On a grossed up basis, which is the best measure when comparing the yields available on bonds and like assets, this yield equates to 5.8%; and

- EPS growth of approximately 12%. Whilst this is always prone to downward revision, there is at least some growth that is expected to be well above that offered by most other asset classes. This earnings growth partly results from the reinvestment of retained earnings.

In this context, there is a reasonable case to be made for continued support for Australia's equity market.

We believe, however, that it will pay to be selective. This selectivity applies to both what one invests in, and what one doesn't. Our investment in the Telecommunications sector is a case in point. Index funds will hold a market-weighted exposure to the sector for both the ups and the more recent downs. The Fund will only invest in a stock, or indeed a sector, if it makes sense from a risk-return point of view. Whether buying or selling, we will be guided in this respect by the company fundamentals.



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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 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.

Benefits of the Fund

- 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;
- Macquarie Wrap;
- Netwealth (Super Service, Wrap Service); and
- Wealthtrac.

Contact details

For more information, call 1800 895 388 (AU) or 0800 442 304 (NZ) or visit baep.com.au

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