

Bennelong Twenty20 Australian Equities Fund

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 | 1.25% | 6.84% | 11.50% | 16.24% | na | na | 11.36% |
| Benchmark* | 0.98% | 6.57% | 13.43% | 17.50% | na | na | 13.24% |
| Value added | +0.26% | +0.28% | -1.93% | -1.26% | na | na | -1.88% |

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 |
| National Australia Bank |
| BHP Billiton |
| Aristocrat Leisure |
| Domino's Pizza |
| CSL |
| Telstra |
| Wesfarmers |

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 | 19.1% | 5.0% | 14.2% |
| Consumer Staples | 12.6% | 7.0% | 5.6% |
| Health Care | 8.2% | 7.0% | 1.3% |
| Liquidity | 0.3% | 0.0% | 0.3% |
| Telcos | 3.1% | 3.6% | -0.4% |
| Utilities | 2.2% | 2.7% | -0.6% |
| IT | 0.0% | 1.3% | -1.3% |
| Financials | 37.1% | 38.5% | -1.4% |
| Industrials | 5.2% | 6.9% | -1.7% |
| Energy | 1.4% | 4.2% | -2.8% |
| REITs | 3.5% | 8.5% | -4.9% |
| Materials | 7.1% | 15.4% | -8.3% |

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



Bennelong Twenty20 Australian Equities Fund

Monthly performance update

As at 30 April 2017

Performance review

The stock market had a reasonably strong month in April, with a return of approximately 1%. The Fund outperformed the market, with a return of 1.25%.

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.

In this respect, the outperformance this month owes itself to strong performances from our larger ex-20 positions. These include Aristocrat Leisure, Domino's Pizza Enterprises, Reliance Worldwide and BWX. On the negative side, our small and selective exposure in the Retail sector detracted from performance, as did our avoidance of the REITs, which performed strongly.

Current ex-20 opportunities

The ex-20 segment of the portfolio is put together stock by stock, reflecting our focus on company fundamentals in managing the active portion of the portfolio.

Offshore earners

We are finding attraction in a number of stocks that have large offshore exposures. They all have the attributes that we favour: quality, strong growth, and underestimated earnings power. Many are global champions that play to Australia's strengths:

- specialised product engineering and design (such as ARB in 4WD parts and Reliance Worldwide in plumbing fittings);
- research and development (Fisher & Paykel Healthcare in medical products and Aristocrat in gaming); and
- clean Aussie-grown produce (Treasury Wine Estates and Costa Group's blueberries).

Offshore markets obviously offer far more scope for geographic expansion. Of course, one must be selective, as Australian corporates have had a checkered past when it comes to offshore. The companies listed above all have competitive advantages that are exportable. None has relied on acquisitions to underpin their offshore strategy.

Domestics

That's not to say we aren't attracted to some domestically focused stocks. However, we have mostly focused on companies that are exposed to positive industry tailwinds. Two good examples are:

- Ramsay Health Care, which as the largest private hospital operator in Australia, is benefiting from structural growth in hospital demand underpinned by an ageing population and medical innovation; and
- AGL Energy, which as an integrated electricity supplier, is well positioned to benefit from tight electricity markets that are supporting prices.

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 12 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 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 typically 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. In this respect, and to the extent of the active portion of the portfolio, we continue to be guided by each company's 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 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 (AU) or 0800 442 304 (NZ) visit baep.com.au

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