

Bennelong Concentrated Australian Equities Fund

Monthly performance update

As at 31 May 2017

Performance

	1 mth	3 mths	6 mths	1 Year	3 years pa	5 years pa	Since Inception** pa
Fund	-0.79%	5.47%	10.61%	10.16%	16.43%	20.00%	17.65%
Benchmark*	-2.74%	1.43%	7.30%	10.80%	6.04%	11.70%	10.73%
Value added	+1.95%	+4.04%	+3.31%	-0.64%	+10.39%	+8.30%	+6.92%

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	32.3%	5.2%	27.1%
Health Care	20.8%	7.1%	13.7%
Consumer Staples	17.2%	7.2%	10.0%
Liquidity	0.8%	0.0%	0.8%
IT	0.0%	1.3%	-1.3%
Industrials	6.0%	7.5%	-1.5%
Utilities	0.0%	2.4%	-2.4%
Telco's	0.0%	3.8%	-3.8%
Energy	0.0%	4.4%	-4.4%
REIT's	0.0%	8.8%	-8.8%
Materials	4.7%	16.0%	-11.2%
Financials	18.2%	36.4%	-18.1%

Source: BAEP. *Benchmark is as for the Fund

Top Holdings

CSL
Aristocrat Leisure
Westpac Banking
Domino's Pizza

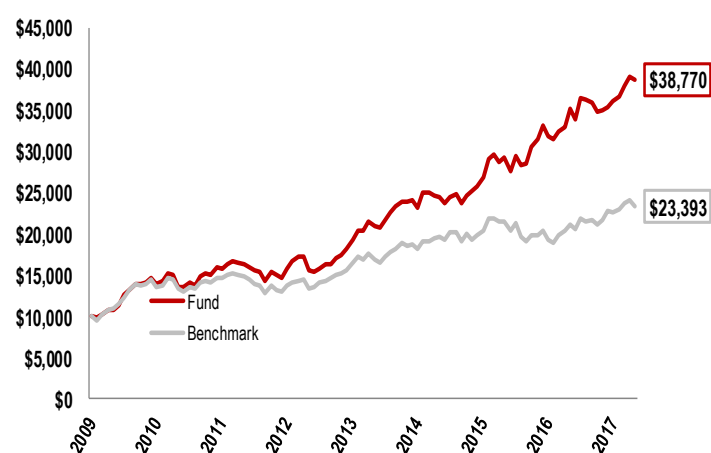
Portfolio characteristics

	Fund	Benchmark*	
Return on Equity	18.1%	12.0%	Premium Quality
Debt/Equity	11.9%	24.1%	
Sales Growth	10.5%	4.1%	Superior Growth
EPS Growth	14.4%	10.0%	
Price/Earnings	19.9x	15.5x	Reasonable Valuation
Dividend Yield	3.1%	4.5%	
Beta	0.90	1	
Active Share	77%	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



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Performance review

The Australian stock market found the going tough in May. This was mostly explained by weakness in the Banking sector. The Fund did well in limiting the damage, outperforming the market by 1.95%. The market returned -2.74%, whilst the Fund returned -0.79%. The Fund continues to outperform the market and deliver very attractive returns for our clients over the long term.

Stocks within the Fund generally held up well despite the difficult market.

Leading the contributors was Aristocrat, the slot machine manufacturer. The company reported its first half financial results (its half year financial period ended 31 March). It was able to report earnings growth of 49% for the half, which was ahead of expectations, and to reconfirm earnings guidance for the full year of 20%-30%. In the context of strong first half earnings result and the strong momentum within the business, this guidance looks conservative. The stock reacted positively to the result.

We believe that the market is only just coming to terms with the positive dynamics that have been shaping Aristocrat. Until recent months, most of the strong share price performance has been explained by the strong earnings growth the company has achieved over the past few years. However, alongside this growth, the company has also been able to dramatically improve its earnings predictability. It has increased the percentage of sales coming from recurring sources, including through more participation sales of slot games, as well as from its online social gaming business. This should naturally support a higher valuation multiple for the company; the market has recently started to agree with this thinking.

Other contributors to the Fund's outperformance were Treasury Wine Estates, Fisher & Paykel Healthcare and Reliance Worldwide. Also contributing was an underweight exposure to the Banking sector. We hold two banking stocks, and they were among the largest detractors to relative performance. However, we are underweight the sector and this meant that we were able to limit the impact from its decline over the month. The Banking sector was hit during the month, starting with a lackluster first-half reporting season for the sector, heightened talk of a housing bubble and possible collapse, and the proposed introduction of the bank levy in the Federal Government's annual Budget. The Banking sector fell almost 10%, with ANZ down 12.2%, Westpac down 10.4%, CBA down 8.9% and NAB down 8.6%.

Outlook

It appears that many fund managers are quite

cautious at present. This is reflected in high and increasing levels of cash within their equity funds. At some stage, this will need to be reinvested back into the market, and this should give some support to equity prices. We have previously discussed our views on holding cash and the related idea of trying to time the market. For this, see our article titled '[Being BAEP: letting the fundamentals do the talking](#)'. In short, we believe we can continue to find attractive opportunities in the market that should beat out cash over time.

It is true there are some real risks within the economy and the stock market that should invite investor caution. However, there are always risks. They should not stop investors from looking for opportunities, and to the extent they are found, to invest appropriately. In the end, it is investor caution that gives rise to cautious expectations and cautious share prices.

Currently, the Australian market trades on reasonable valuation metrics, namely:

- a PE multiple of 15.5x the next 12 months earnings, which equates to an earning yield of approximately 6.5%;
- a dividend yield of 4.5%. 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 4.5% 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 6.0%; and
- EPS growth of approximately 10%. Whilst this is very likely to be revised downward, there is at least some level of growth that augments the dividend yield. This earnings growth partly results from the reinvestment of retained earnings.

In the context of the low interest rate environment, and the relatively low returns available on other asset classes, these metrics appear quite attractive. Cash, which as discussed before is attracting a number of equity fund managers, offers about 3% at best.

That's not to say investors should buy equities complacently. There are some pockets of the Australian market that look quite risky. Earnings risk abounds. There are, however, some pockets in which we are finding quite attractive opportunities. In this respect, it pays to be selective. The Bennelong Concentrated Australian Equities Fund is run with that in mind. In this respect, we continue to focus on company fundamentals, and to favour high quality, strong growing companies with underestimated earnings power.



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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)

Wealthtrac

Panorama Super

Contact details

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

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

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