

# Bennelong Twenty20 Australian Equities Fund

## 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	-2.22%	2.40%	6.69%	8.79%	na	na	9.03%
Benchmark*	-2.74%	1.43%	7.30%	10.80%	na	na	10.37%
Value added	+0.52%	+0.97%	-0.61%	-2.01%	na	na	-1.34%

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
CSL
Domino's Pizza
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	19.7%	5.2%	14.5%
Consumer Staples	12.6%	7.2%	5.3%
Liquidity	2.1%	0.0%	2.1%
Health Care	7.7%	7.1%	0.6%
Utilities	2.1%	2.4%	-0.3%
Telco's	3.3%	3.8%	-0.5%
Financials	35.4%	36.4%	-0.9%
IT	0.0%	1.3%	-1.3%
Industrials	5.6%	7.5%	-1.9%
Energy	1.5%	4.4%	-3.0%
REIT's	3.6%	8.8%	-5.2%
Materials	6.5%	16.0%	-9.5%

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





## Bennelong Twenty20 Australian Equities Fund

### Monthly performance update

As at 31 May 2017

#### Performance review

The stock market had a reasonably difficult month in May, with a return of -2.74%. A major reason for the poor performance of the market was the weakness in the Banking sector. 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%. The Fund outperformed the market, with a return of -2.22%.

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 ex-20 stocks in the portfolio. The major contributor to the Fund's outperformance 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, Reliance Worldwide and Fisher & Paykel Healthcare. There were no detractors of note.

#### 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 always is. 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.



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

#### 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) or visit [baep.com.au](http://baep.com.au)

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