



# Bennelong Long Short Equity Fund

## Monthly Performance Update

As at 31 December 2017

### Portfolio Performance

Performance for the month, +2.90%, was broad based with a majority of pairs profitable and only two pairs of note that under-performed. Positive performance was quite evenly spread across the top eight pairs, with no standout pair. Our top performing pair was Long ALS Limited (ALQ) / short Aurizon (AZJ) which benefitted from Aurizon receiving an unfavourable outcome on the draft decision relating to commercial terms for the regulation of its Queensland infrastructure assets.

On the negative side, long Qantas (QAN) / short Flight Centre (FLT) was our weakest pair, due to Qantas slipping, a reflection of the rising oil price. Long Harvey Norman (HVN) / short Myer (MYR) / Short Metcash (MTS) benefitted from a downgrade to Myer on weak sales preceding Christmas, however that was overshadowed by an upgrade to Metcash following an improved interim result.

### Market Observations

World share markets maintained their general upward trend over December, with the US up +1.0% (S&P 500 Index), Europe +0.7% (MSCI Europe Index), Japan +0.2% (Nikkei Index), and the rest of Asia +2.5% (MSCI Asia ex Japan). In Australia, the local market gained +1.6% (S&P/ASX 200 Index) and has now rallied +6% in the last six months following a rise of just 1% in the first half of calendar 2017.

In December, markets were unperturbed by the US Federal Reserve flagging another three rate hikes in calendar 2018 (after three hikes in 2017). In recent years markets have reacted negatively to the prospect of rate normalisation. It now seems markets are welcoming rate hikes, perhaps as an indication of the momentum of the US (and global) economy. Currently the consensus among the committee members of the Federal Reserve is for the target federal funds rate to rise 0.25% on three occasions in 2018, bringing the rate to a range of 2.0% to 2.25%. Further increases over 2019 and 2020 are also forecast, resulting in a target federal funds rate of between 3.0% and 3.25%. As shown in the chart below, a move to this level would see cash rates at a level below the average of the last 25 years.

US Federal Rate Target Rate



### Fund statistics

Fund NAV A\$M	Month End	\$417.2
Gross exposure A\$M	Month End	\$1,945.6
Fund leverage (x NAV)	Month End*	4.6
Average fund leverage (x NAV)	Since inception	4.3
Fund volatility (annualised)	Month	13.1%
Fund volatility (annualised)	Rolling 12 months	12.3%
Positive months %	Rolling 6 months	50%
Positive months %	Since inception	65%
Sharpe Ratio (basis RBA Cash)	Month	3.1
Sharpe Ratio (basis RBA Cash)	Rolling 12 months	1.6
Long exposure	Month End	51.4%
Short exposure	Month End	-48.6%
Fund performance (composite)	Since inception \$1.00	\$11.28

\*Gearing calculated subject to variations in accruals

### Significant Pairs

#### Top spreads for the month

Long	ALS Ltd (ALQ)	Short	Aurizon (AZJ)
Long	Origin Energy (ORG)	Short	AGL Energy (AGL)

#### Bottom spreads for the month

Long	Qantas Airways (QAN)	Short	Flight Centre (FLT)
Long	Harvey Norman (HVN)	Short	Myer (MYR) / Metcash (MTS)

### Performance

1 month	2.90%
3 months	7.11%
Fiscal YTD	2.33%
12 months	21.12%
Since inception (compound p.a.)	16.44%



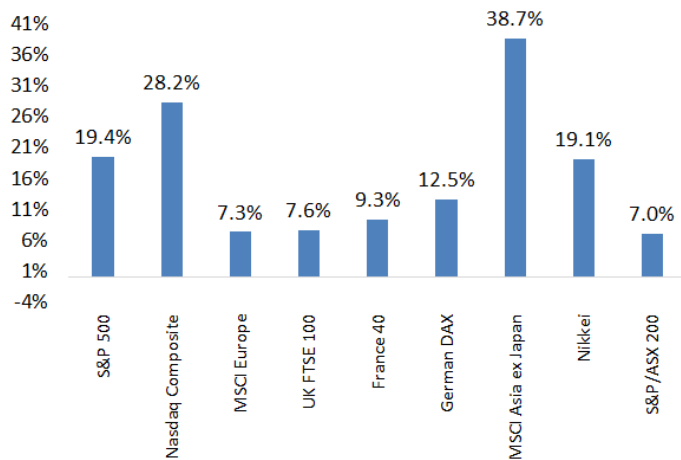
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As shown in the below chart, all the major share markets around the world gained during 2017 (measured in their local currency), with standout performances from the United States (S&P 500 and Nasdaq) and Asia ex Japan (notably, Hong Kong, South Korea and Malaysia).

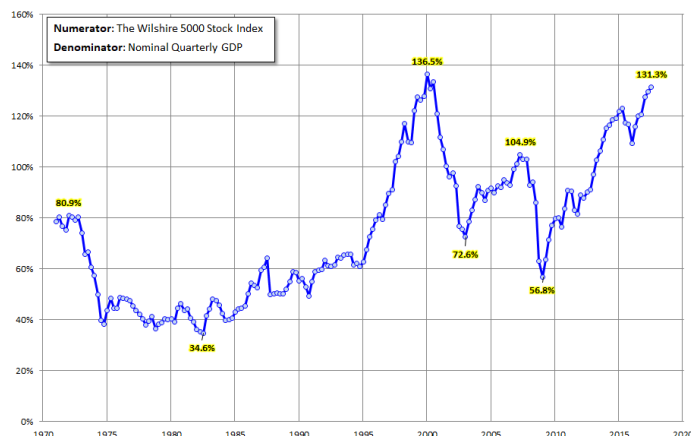
Share Price Index Returns - 12 Months to 31 Dec 2017



Source: Bloomberg

At this time of year there is much commentary on the outlook for equity markets, and no commentary is complete without a review of valuation. Whereas most references to valuation cite conventional measures (e.g. P/E ratio), an alternative is to look at the size of the stock market relative to the size of the economy. Courtesy of [advisorperspectives.com](http://advisorperspectives.com), the below chart shows this picture for the US. The data involves the Wilshire 5000 Index (which currently has a market cap of US\$24 trillion) and US nominal GDP (currently about US\$19 trillion). The current ratio of 130% (i.e. \$24 trillion / \$19 trillion) compares to a history of significant variation ranging from as low as 40% during the stagflationary period of the late 1970s to as high as 140% in the lead up to the late 1990's dot-com bubble.

ADVISOR PERSPECTIVES A Buffett Indicator Variant: Wilshire 5000 to GDP dshort.com December 2017 Q3 Second Estimate





# Bennelong Long Short Equity Fund

## Monthly Performance Update

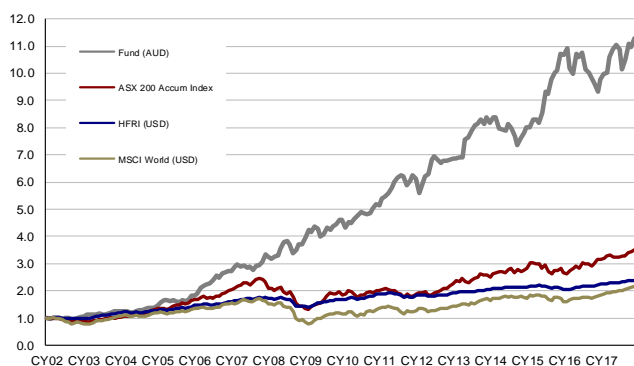
As at 31 December 2017

### Calendar year performance

% change cal yr	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	CYTD
<b>2017</b>	<b>4.95%</b>	<b>2.07%</b>	<b>0.29%</b>	<b>5.84%</b>	<b>2.86%</b>	<b>1.20%</b>	<b>-1.42%</b>	<b>-6.70%</b>	<b>3.88%</b>	<b>5.29%</b>	<b>-1.14%</b>	<b>2.90%</b>	<b>21.12%</b>
<b>2016</b>	<b>-0.29%</b>	<b>2.37%</b>	<b>-6.73%</b>	<b>-2.30%</b>	<b>7.58%</b>	<b>-1.04%</b>	<b>1.46%</b>	<b>-5.90%</b>	<b>-1.06%</b>	<b>-1.76%</b>	<b>-2.24%</b>	<b>-3.23%</b>	<b>-13.07%</b>
<b>2015</b>	<b>2.66%</b>	<b>0.05%</b>	<b>3.59%</b>	<b>0.03%</b>	<b>-1.91%</b>	<b>4.86%</b>	<b>8.85%</b>	<b>-0.69%</b>	<b>5.71%</b>	<b>2.54%</b>	<b>0.65%</b>	<b>6.22%</b>	<b>37.11%</b>
<b>2014</b>	<b>-2.32%</b>	<b>2.50%</b>	<b>0.16%</b>	<b>-4.97%</b>	<b>-0.80%</b>	<b>-0.44%</b>	<b>3.04%</b>	<b>-1.56%</b>	<b>-3.59%</b>	<b>-4.33%</b>	<b>3.12%</b>	<b>2.83%</b>	<b>-6.63%</b>
<b>2013</b>	<b>0.46%</b>	<b>-0.28%</b>	<b>0.69%</b>	<b>0.01%</b>	<b>9.49%</b>	<b>1.10%</b>	<b>3.52%</b>	<b>2.27%</b>	<b>0.83%</b>	<b>1.88%</b>	<b>-1.80%</b>	<b>2.68%</b>	<b>22.48%</b>
<b>2012</b>	<b>-2.04%</b>	<b>-8.43%</b>	<b>6.35%</b>	<b>4.22%</b>	<b>1.19%</b>	<b>8.47%</b>	<b>1.57%</b>	<b>-1.61%</b>	<b>-2.00%</b>	<b>1.69%</b>	<b>-0.41%</b>	<b>0.89%</b>	<b>9.20%</b>
<b>2011</b>	<b>-0.59%</b>	<b>4.39%</b>	<b>1.85%</b>	<b>2.34%</b>	<b>3.09%</b>	<b>4.12%</b>	<b>2.12%</b>	<b>1.91%</b>	<b>-1.25%</b>	<b>-5.06%</b>	<b>3.09%</b>	<b>3.27%</b>	<b>20.60%</b>
<b>2010</b>	<b>0.25%</b>	<b>-6.16%</b>	<b>4.77%</b>	<b>-1.10%</b>	<b>3.24%</b>	<b>2.84%</b>	<b>2.90%</b>	<b>-0.96%</b>	<b>-0.98%</b>	<b>1.23%</b>	<b>2.87%</b>	<b>3.65%</b>	<b>12.71%</b>
<b>2009</b>	<b>5.69%</b>	<b>7.88%</b>	<b>-1.72%</b>	<b>4.26%</b>	<b>-1.24%</b>	<b>-7.16%</b>	<b>2.24%</b>	<b>5.61%</b>	<b>-1.14%</b>	<b>2.65%</b>	<b>1.71%</b>	<b>3.57%</b>	<b>23.64%</b>
<b>2008</b>	<b>-2.10%</b>	<b>-2.82%</b>	<b>3.40%</b>	<b>1.06%</b>	<b>7.07%</b>	<b>7.36%</b>	<b>1.16%</b>	<b>-3.57%</b>	<b>-8.98%</b>	<b>3.78%</b>	<b>5.78%</b>	<b>0.49%</b>	<b>11.95%</b>
<b>2007</b>	<b>0.55%</b>	<b>5.42%</b>	<b>3.62%</b>	<b>-3.12%</b>	<b>0.92%</b>	<b>-2.90%</b>	<b>1.70%</b>	<b>-3.72%</b>	<b>5.63%</b>	<b>-0.22%</b>	<b>4.41%</b>	<b>9.04%</b>	<b>22.51%</b>
<b>2006</b>	<b>1.24%</b>	<b>4.76%</b>	<b>10.16%</b>	<b>2.90%</b>	<b>2.58%</b>	<b>0.95%</b>	<b>5.57%</b>	<b>7.67%</b>	<b>-2.62%</b>	<b>5.22%</b>	<b>2.01%</b>	<b>1.35%</b>	<b>49.91%</b>
<b>2005</b>	<b>6.29%</b>	<b>7.29%</b>	<b>5.01%</b>	<b>-0.49%</b>	<b>-0.27%</b>	<b>1.81%</b>	<b>-2.87%</b>	<b>-1.51%</b>	<b>4.10%</b>	<b>-2.33%</b>	<b>2.88%</b>	<b>8.73%</b>	<b>31.64%</b>
<b>2004</b>	<b>0.19%</b>	<b>0.16%</b>	<b>0.49%</b>	<b>-3.41%</b>	<b>0.78%</b>	<b>2.60%</b>	<b>4.36%</b>	<b>-0.80%</b>	<b>3.22%</b>	<b>1.42%</b>	<b>-0.29%</b>	<b>1.61%</b>	<b>10.59%</b>
<b>2003</b>	<b>2.34%</b>	<b>6.21%</b>	<b>-0.44%</b>	<b>0.61%</b>	<b>0.82%</b>	<b>3.00%</b>	<b>-1.93%</b>	<b>-0.99%</b>	<b>2.01%</b>	<b>4.85%</b>	<b>3.78%</b>	<b>-1.27%</b>	<b>20.33%</b>

**Note:** The returns highlighted in bold are net returns of the Bennelong Long Short Equity Fund (pre tax) \*Composite pro forma CY08. The returns not bolded are "pro forma" net returns of the Bennelong Securities Long Short Equity Fund (Managed Account) (pre tax) Jan 03 to Jun 08

### Performance Since Inception



**Note:** Composite Index comprising Bennelong Securities Long Short Equity Fund (Managed Account) Feb 02 to Jun 08 & Bennelong Long Short Equity Fund from Jul 08

Fund Summary			
<b>Strategy</b>	Market Neutral, Pairs	<b>Domicile</b>	Australia
<b>Manager</b>	Bennelong Long Short Equity Management Pty Ltd	<b>AUM</b>	A\$715.2m
<b>Status</b>	Soft-close	<b>Currency</b>	AUD
<b>Inception Date</b>	February 2002		

The Fund is managed by Bennelong Long Short Equity Management Pty Limited, a Bennelong Funds Management boutique.

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