



Bennelong Long Short Equity Fund

Monthly Performance Update

As at 30 June 2018

Portfolio Performance

The Fund treaded water in June, finishing virtually unchanged, following a strong positive return in May. The return for the fiscal year to 30 June was +11.3%. Long Woolworths / short Metcash again was a strong pair contributor. Metcash reported full year profits and guided to higher costs and investment to defend its competitive position, which overshadowed the \$125 mil share buyback. Our weakest pair for the month was long Mineral Resources / short BHP following changes to Mineral Resources' operations and monetisation strategy at its Wodgina lithium project.

Market Observations

June was a continuation of fortunes observed in May where US markets fared better than offshore markets in sympathy with trends in economic and corporate earnings data alongside growing concerns on the outlook for trade relations between the world's two largest economies – the USA and China. Asian markets in particular were weak with the Shanghai Composite Index -8%, the Hang Seng Index -5% and Korean Stock Exchange -4%. European markets similarly were down with Germany -2.4% (DAX Index), France -1.4% (France 40 Index) and UK -0.5% (FTSE 100 Index). In the US the S&P 500 Index performance (+0.5%) reflected the economic data where employment, wages, retail sales and manufacturing continue to improve, while the tech-heavy Nasdaq (+0.9%) suffered a pullback late in the month but still managed to post a decent gain overall.

Australia stood out from offshore equities in June with a healthy return of +3% (S&P/ASX 200 Index). Gains were broad based for the month – in fact most sectors gained, with Energy (+7.8%) the standout on the back of a +10.6% rally in crude oil (+13.2% in A\$), while Information Technology (+6.3%), Consumer Staples (+6.2%) and Utilities (+5.1%) were also strong. The exception, yet again, was Telecommunications, which fell -5.8% as a result of further declines in Telstra following its investor strategy day in which it announced a range of reforms to improve its competitiveness and also guided to substantially lower earnings in FY19 versus market estimates. Since peaking in February 2015, the telecommunications sector has fallen almost 60% in value. While such a decline seems very dramatic, it is worth noting that listed telecommunications companies worldwide have been struggling for a number of years. The following chart shows the price index performance of the local telecommunications sector with several offshore equivalents. The chart shows generally flat to down price index performances, making them notable laggards vs other sectors and equity markets in general. We attribute the under-performance of the telecommunications sector as a reflection upon the deflationary forces inherent in technological change – something that has been more impactful for this industry than others (e.g. mining, healthcare, transport).

Fund statistics

Fund NAV A\$M	Month End	\$439.9
Gross exposure A\$M	Month End	\$2,057.4
Fund leverage (x NAV)	Month End*	4.6
Average fund leverage (x NAV)	Since inception	4.3
Fund volatility (annualised)	Month	14.5%
Fund volatility (annualised)	Rolling 12 months	11.4%
Positive months %	Rolling 6 months	83%
Positive months %	Since inception	66%
Sharpe Ratio (basis RBA Cash)	Month	(0.0)
Sharpe Ratio (basis RBA Cash)	Rolling 12 months	0.9
Long exposure	Month End	50.6%
Short exposure	Month End	-49.4%
Fund performance (composite)	Since inception	\$12.27
	\$1.00	

*Gearing calculated subject to variations in accruals

Significant Pairs

Top spread for the month

Long	Woolworths (WOW)	Short	Metcash (MTS)
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Bottom spread for the month

Long	Mineral Resources (MIN)	Short	BHP Billiton (BHP)
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Performance

1 month	0.08%
3 months	6.89%
Fiscal YTD	11.30%
12 months	11.30%
Since inception (compound p.a.)	16.50%



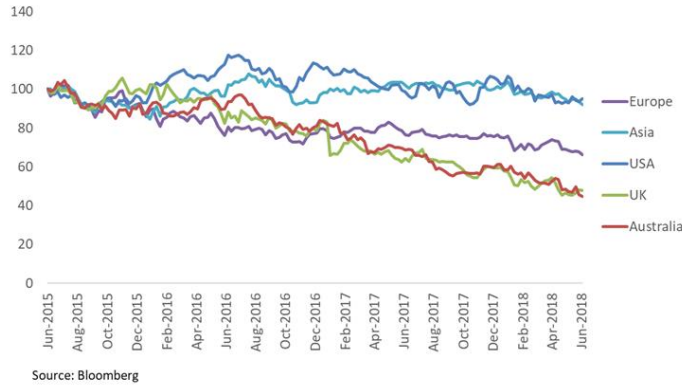


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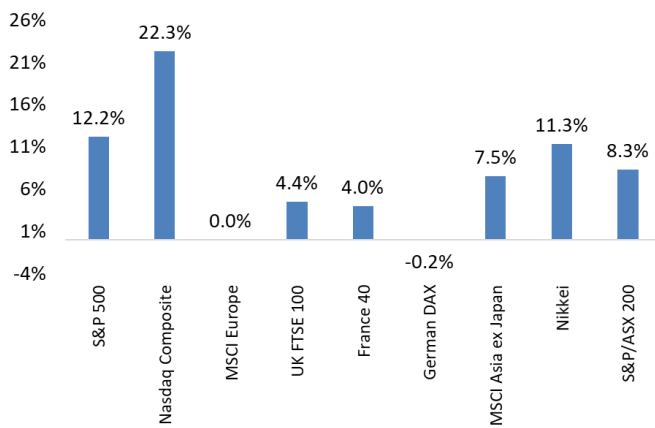
Telecommunications Share Price Indices
3 years to 30 June 2018 (Index 100)



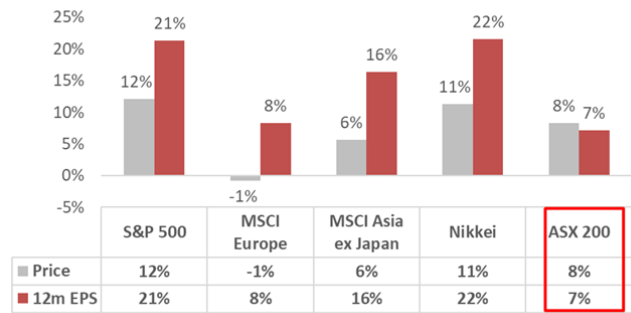
What about quality? Over the last several years, in our June newsletter we have included a chart showing price gains for various equity indices against the change in 12m forward EPS. The idea of doing this is to observe whether price gains are being supported by earnings delivery (i.e. fundamentals) or otherwise (e.g. sentiment, liquidity). Below is our update for fiscal 2018. The light grey coloured columns represent the price change, the dark red columns the EPS change. As you can see, for the most part, earnings change was greater than price change over the fiscal year. This is different to fiscal 2017 when price gains outpaced earnings (the exception being Australia), resulting in P/E ratios further rising to quite elevated levels vs history. This year, P/E ratios have instead declined and we can't help but interpret this development as evidence of the impacts to the valuation of all asset classes (equities included) in the face of the world's central banks commencing the unwinding of very loose monetary policy settings. Given policy settings on the whole, remain very accommodative, and given geopolitical tensions appear more strained than recent memory, one could not rule out further multiple compression in the coming fiscal year.

For the fiscal year to 30 June 2018, share markets overall were more varied than fiscal 2017 when all indices posted very strong gains. As per the below chart, US markets continued to gain strongly while Europe was subdued and Asia somewhere in between. Australia managed a gain of +8.3%, which combined with a dividend yield of 5% resulted in a total shareholder return of +13.3%.

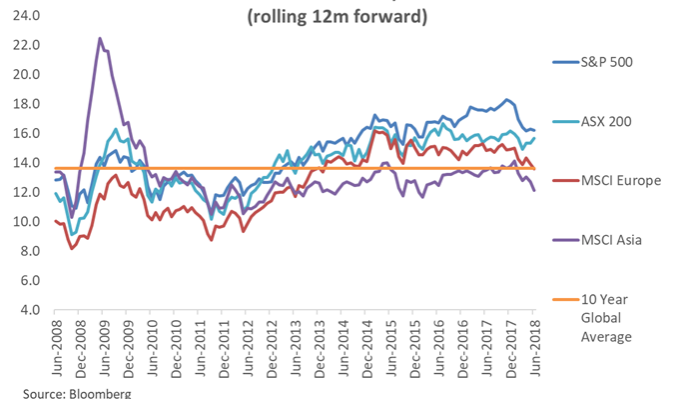
Share Price Index Returns - 12 Months to 30 Jun 2018



Share Market Returns - Year to 30 June 2018



World Share Market P/E Ratios
(rolling 12m forward)





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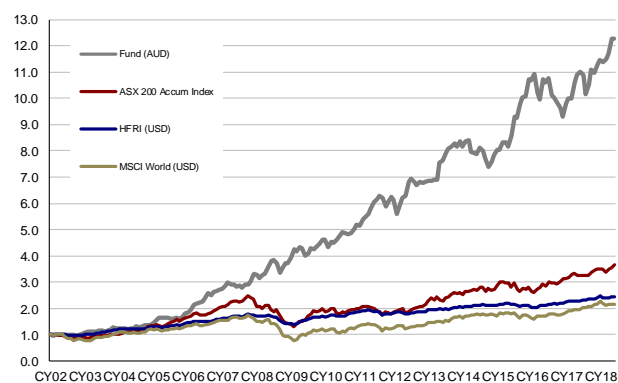
As at 30 June 2018

Calendar year performance

% change cal yr	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	CYTD
2018	1.51%	-0.58%	0.83%	1.96%	4.75%	0.08%							8.77%
2017	4.95%	2.07%	0.29%	5.84%	2.86%	1.20%	-1.42%	-6.70%	3.88%	5.29%	-1.14%	2.90%	21.12%
2016	-0.29%	2.37%	-6.73%	-2.30%	7.58%	-1.04%	1.46%	-5.90%	-1.06%	-1.76%	-2.24%	-3.23%	-13.07%
2015	2.66%	0.05%	3.59%	0.03%	-1.91%	4.86%	8.85%	-0.69%	5.71%	2.54%	0.65%	6.22%	37.11%
2014	-2.32%	2.50%	0.16%	-4.97%	-0.80%	-0.44%	3.04%	-1.56%	-3.59%	-4.33%	3.12%	2.83%	-6.63%
2013	0.46%	-0.28%	0.69%	0.01%	9.49%	1.10%	3.52%	2.27%	0.83%	1.88%	-1.80%	2.68%	22.48%
2012	-2.04%	-8.43%	6.35%	4.22%	1.19%	8.47%	1.57%	-1.61%	-2.00%	1.69%	-0.41%	0.89%	9.20%
2011	-0.59%	4.39%	1.85%	2.34%	3.09%	4.12%	2.12%	1.91%	-1.25%	-5.06%	3.09%	3.27%	20.60%
2010	0.25%	-6.16%	4.77%	-1.10%	3.24%	2.84%	2.90%	-0.96%	-0.98%	1.23%	2.87%	3.65%	12.71%
2009	5.69%	7.88%	-1.72%	4.26%	-1.24%	-7.16%	2.24%	5.61%	-1.14%	2.65%	1.71%	3.57%	23.64%
2008	-2.10%	-2.82%	3.40%	1.06%	7.07%	7.36%	1.16%	-3.57%	-8.98%	3.78%	5.78%	0.49%	11.95%
2007	0.55%	5.42%	3.62%	-3.12%	0.92%	-2.90%	1.70%	-3.72%	5.63%	-0.22%	4.41%	9.04%	22.51%
2006	1.24%	4.76%	10.16%	2.90%	2.58%	0.95%	5.57%	7.67%	-2.62%	5.22%	2.01%	1.35%	49.91%
2005	6.29%	7.29%	5.01%	-0.49%	-0.27%	1.81%	-2.87%	-1.51%	4.10%	-2.33%	2.88%	8.73%	31.64%
2004	0.19%	0.16%	0.49%	-3.41%	0.78%	2.60%	4.36%	-0.80%	3.22%	1.42%	-0.29%	1.61%	10.59%
2003	2.34%	6.21%	-0.44%	0.61%	0.82%	3.00%	-1.93%	-0.99%	2.01%	4.85%	3.78%	-1.27%	20.33%

Note: The returns highlighted in bold are net returns of the Bennelong Long Short Equity Fund (pretax) *Composite pro forma CY08. The returns not bolded are "pro forma" net returns of the Bennelong Securities Long Short Equity Fund (Managed Account) (pretax) 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			
Strategy	Market Neutral, Pairs	Domicile	Australia
Manager	Bennelong Long Short Equity Management Pty Ltd	AUM	A\$812.9m
Status	Soft-close	Currency	AUD
Inception Date	February 2002		

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

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