

# Bennelong Twenty20 Australian Equities Fund

## Performance update

As at 30 June 2018

### Net client returns (after fees and expenses)

	1 mth	3 mths	6 mths	1 Year	3 years pa	5 years pa	Since Inception** pa
Fund	3.12%	10.30%	7.05%	18.50%	na	na	12.77%
Benchmark*	3.19%	8.36%	4.27%	13.24%	na	na	11.22%
Value added	-0.07%	+1.94%	+2.78%	+5.26%	na	na	+1.55%

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 mirrors 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 Holdings

Commonwealth Bank
BHP Billiton
Westpac Banking
CSL
Australia and New Zealand Banking
National Australia Bank
Reliance Worldwide
Aristocrat Leisure

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	18.1%	5.0%	13.1%
Consumer Staples	14.0%	8.1%	5.9%
Health Care	10.2%	8.4%	1.7%
Liquidity	1.7%	0.0%	1.7%
Industrials	6.9%	7.2%	-0.3%
Telco's	1.7%	2.2%	-0.5%
IT	1.8%	2.5%	-0.7%
Utilities	0.0%	2.0%	-2.0%
Energy	2.8%	5.7%	-2.9%
Financials	27.8%	32.6%	-4.8%
REIT's	2.5%	7.7%	-5.2%
Materials	12.4%	18.5%	-6.1%

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



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### Quarterly performance review

The Fund's returns over various time periods are set out in the table on the front page.

Over the quarter, the Fund returned 10.30%, meaning it nicely outperformed the market, which returned 8.36%. The Fund's outperformance came from a number of its ex-20 holdings, including Reliance Worldwide and Aristocrat Leisure.

These names typify the kind of stocks in which we seek to invest for the ex-20 exposure of the Fund. They are high quality growth companies that proved again this quarter to have better than expected earnings prospects.

**Reliance Worldwide** made a very significant and value accretive acquisition during the quarter, buying John Guest for A\$1.2 billion. Reliance is the world's leading manufacturer of brass push-to-connect plumbing fittings, selling predominantly into the US and Australasian markets. John Guest is the world's leading manufacturer of plastic push-to-connect plumbing fittings, and with its headquarters in UK, it sells mainly into European markets. For Reliance, the acquisition adds complementary plumbing products to its range, expands its geographic reach and supports cross-sell opportunities, and comes with cost-out and other synergy benefits. Importantly, the acquisition is expected to be at least 30% accretive to earnings per share, after accounting for synergies. BAEP is the largest shareholder in Reliance Worldwide, and it is one of the largest active positions in the Fund. The acquisition was largely financed through an entitlement offer at a very attractive price and the Fund participated for its full share.

**Aristocrat Leisure**, the slot machine manufacturer and online social games developer, announced its first half financial results in May. The results beat expectations and were well received by the market. The company was able to grow revenues and profits both by approximately 33%. This growth was underpinned by strength in its online social games business, where two recent acquisitions proved their worth, and which business now boasts over eight million daily active users. The company guided to continued aggressive investment in new product design and development, as well as to continuing strong profitability over the next 12 months.

### Outlook

#### Relatively attractive valuations

Although having a decent run of late, equities still seem to present as an attractive option in the competition for investors' dollars. On consensus numbers, the Australian stock market trades on 15.8 times forward earnings. This is about 10% above the historical average of roughly 14 to 15 times (it depends on how far back one goes). This is more than fair in the context of the current low rate environment. For context, the benchmark 10-year Government bond yields just 2.6%, is pre-tax, and is incapable of growing. Australian stocks offer a dividend yield of 4.5%, or just under 6% when grossed up for franking credits. More generally, Australian stocks appeal in competition with cash and most bonds and property assets, with investors increasingly less positive on the latter two. If one knew for sure bond yields would not rise much from here, stocks would stand out as downright cheap. And underpinning stocks' relative appeal, corporate earnings appear solid, with nice growth and consensus forecasts holding up, at least for now.

#### Improving investor sentiment and markets

From the depths of the GFC in early March 2009 to the end of June this year, the Australian stock market has risen 96%. The total return, which also includes dividends reinvested back into the market, has been approximately 194%. Over that time, investors have been climbing a wall of worry. The market has been in a general uptrend, but there have also been a few decent falls along the way. These have acted as a check on investor confidence. The market twice fell by 20% or more, being in mid-2011 and then again in late 2015/early 2016. In the two and a half years since the last fall, the market has risen nicely. It now sits at decade highs and about 10% short of the all-time high set in 2007. Volatility has remained low, despite consensus calls earlier this year that it would pick up. This has also been helpful in improving investor confidence. Still today, the general public remains unenthused by stocks, with margin lending at decade-lows, little stock talk at BBQs, and Uber/taxi drivers uninterested in handing out stock tips.

#### The next correction?

Indeed, there continues to be a large cohort of investors waiting for the next correction, albeit they seem to have pushed out their expectations on timing and magnitude. This reflects the improving investor sentiment, which remains somewhat cautious. The feeling is reflected in the Barron's magazine covers below, admittedly a mostly US centric magazine.

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**Cover of Barron's in May 2016**



**Most recent cover of Barron's**



As always, big-picture macro risks abound, including rate rises, trade wars, Chinese financial instabilities and excessive Australian consumer leverage. Most likely, the stock market will ultimately manage its way through these issues. Corrections are inevitable, but in the end, the risk is not the occasional correction, as unpredictable as they are, but being underinvested over the long term. Many will understand this in the case of Australian property, where waiting for the crash was a big opportunity cost. Likewise, time in the market - not timing the market - is the key to equities because, whilst the near term is always uncertain, the long term is quite certain to provide relatively attractive compound returns. From here, the market continues to offer relatively attractive long term returns.





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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, disciplined and proven 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 macro-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 is managed in accordance with BAEP's robust, disciplined and proven investment philosophy and process.
- 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 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	+/-0.20%
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 (Elements Investment, Elements Pension, iAccess, My North, North, Portfolio Care, Portfolio Care eWrap, PPS, Summit, Wealthview eWrap Inv)

AON Federation

CFS (FirstWrap) Macquarie Wrap (IDPS, Super)

Credit Suisse Netwealth (Super Service, Wrap Service)

#### Contact details

For more information, call 1800 895 388 (AU) or 0800 442 304 (NZ) or visit [baep.com.au](http://baep.com.au).

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

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