



# Bennelong Long Short Equity Fund

## Monthly Performance Update

As at 31 October 2018

### Portfolio Performance

The fund fared poorly in a month which featured elevated market volatility, general weakness, corporate activity and a plethora of updates to earnings guidance at AGMs.

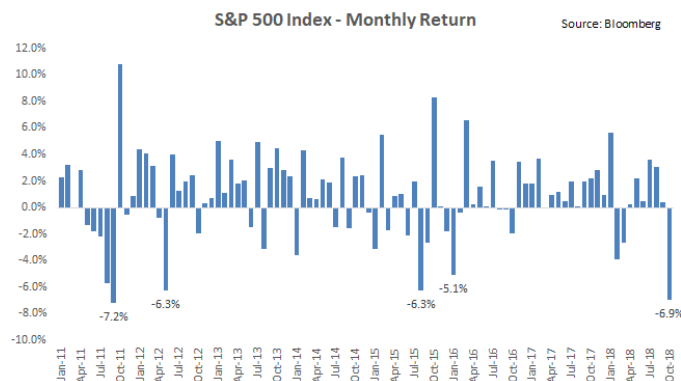
Regarding company earnings and guidance updates, both the long and short portfolio experienced a favourable bias of upgrades/downgrades. In addition, one of our short positions gained from the announcement of an asset sale which the market received very negatively.

However, company fundamentals were overwhelmed by the market favouring defensive traits in preference to operating/fundamental performance. This is not unusual in this type of environment. In addition to this influence, it was also evident that there was an element of mean reversion in our September and October performance following our August performance.

The Fund was also hit by an indicative bid by private equity firm KKR for Myob. The fund is long Xero (XRO) / short Myob (MYO). This pair accounted for one third of our negative return for the month. The timing was especially unfortunate as it was announced the day before the US tech stock correction began - leaving our XRO position unsatisfactorily hedged. Whilst it is a significant cost for the fund this month, even post the bid the pair has been very profitable for the fund. Our historic sale price for MYO is around the post bid share price, however our buy price for XRO is less than half the current share price. It is often the case that takeovers can be preceded by lengthy periods of poor performance by the target.

### Market Observations

It was a very weak month for equity markets. The US S&P 500 Index declined -6.9%, its biggest monthly setback since September 2011 while the tech-focused Nasdaq Composite Index fell -9.2% to have its worst calendar month since February 2009. European markets similarly declined mid-to-high single digits (UK FTSE Index -5.1%, France CAC 40 Index -7.3%, German Dax Index -6.5%) while Asian markets fared worse with the Japan Nikkei Index down -9.1% and MSCI Asia ex Japan -10.9%.



### Fund statistics

Fund NAV A\$M	Month End	\$414.8
Gross exposure A\$M	Month End	\$1,853.3
Fund leverage (x NAV)	Month End*	4.5
Average fund leverage (x NAV)	Since inception	4.3
Fund volatility (annualised)	Month	16.2%
Fund volatility (annualised)	Rolling 12 months	15.7%
Positive months %	Rolling 6 months	50%
Positive months %	Since inception	65%
Sharpe Ratio (basis RBA Cash)	Month	(5.7)
Sharpe Ratio (basis RBA Cash)	Rolling 12 months	0.2
Long exposure	Month End	50.1%
Short exposure	Month End	-49.9%
Fund performance (composite)	Since inception \$1.00	\$11.68

\*Gearing calculated subject to variations in accruals

### Significant Pairs

#### Top spreads for the month

Long	Orica (ORI)	Short	Downer EDI (DOW)
Long	Ramsay Health Care (RHC)	Short	Primary (PRY) / Healthscope (HSO)
Long	Woolworths (WOW)	Short	Metcash (MTS)

#### Bottom spreads for the month

Long	Xero (XRO)	Short	MYOB (MYO)
Long	TPG Telecom (TPM)	Short	Telstra (TLS)
Long	Iluka Resources (ILU)	Short	Rio Tinto (RIO)

### Performance

1 month	-7.05%
3 months	-1.17%
Fiscal YTD	-4.77%
12 months	5.38%
Since inception (compound p.a.)	15.81%



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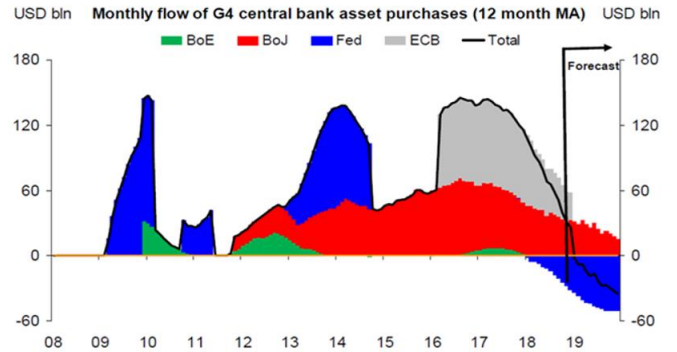
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The Australian share market performed in lock-step with offshore markets, posting a decline of -6.1% (ASX/S&P 200 Index). All sectors declined during the month with the Energy (-10.5%) and IT (-11.3%) sectors being hardest hit in sympathy with a weaker oil price (Crude Oil -11%) and the weakness in tech sectors worldwide.

The more fragile progress of share markets in the last 12 months in no small part reflects changing monetary policy settings from the major central banks who implemented unprecedented stimulus measures in the aftermath of the 2008-09 global financial crisis (GFC) and have only recently begun unwinding these settings. While the programs underway to normalise monetary policy are gradual and orderly, they nevertheless mark the end of a prior tailwind in terms of the absence of a large known buyer of various financial assets that has impacted the pricing of many other asset classes (equities included). To put the normalisation process in perspective, the following two charts show first, the starting point of short term interest rates set by the central banks, while the second chart is courtesy of Deutsche Bank who has estimated the profile of net asset buying by each of the US Federal Reserve, ECB, Bank of England and Bank of Japan. In aggregate, central banks are reversing the process of expanding liquidity to withdrawing it.

QE coming to an end will have significant implications for global fixed income markets



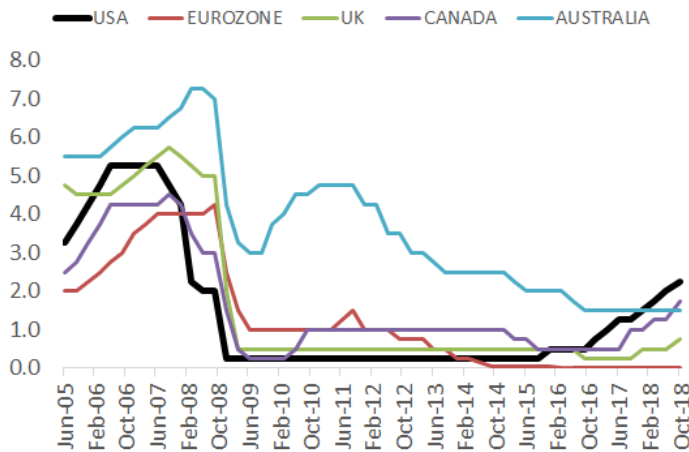
Assumptions: Fed will redeem assets to the terminal cap of \$50 bn consistent with the FOMC's Sep 2017 decision and the June 2017 addendum. ECB will buy EUR 15 bn worth assets in Oct, Nov and Dec 18 and then stop buying. BoJ to buy the average of 2018 so far in Oct, Nov and Dec 2018 and then taper from Jan 2019 to bring monthly purchases to zero by Dec 2019. FX in the forecast assumed to be the same as Sep 2018.

Deutsche Bank Research

November 2018

Official Cash Rates

Source: Bloomberg





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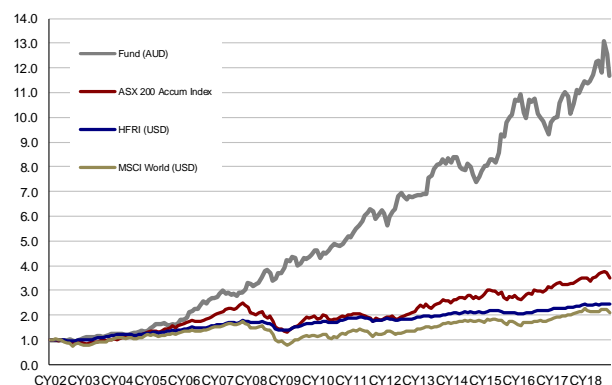
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### Calendar year performance

% change cal yr	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	CYTD
<b>2018</b>	1.51%	-0.58%	0.83%	1.96%	4.75%	0.08%	-3.64%	10.59%	-3.85%	-7.05%			3.59%
<b>2017</b>	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%
<b>2016</b>	-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%
<b>2015</b>	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%
<b>2014</b>	-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%
<b>2013</b>	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%
<b>2012</b>	-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%
<b>2011</b>	-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%
<b>2010</b>	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%
<b>2009</b>	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%
<b>2008</b>	-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%
<b>2007</b>	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%
<b>2006</b>	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%
<b>2005</b>	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%
<b>2004</b>	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%
<b>2003</b>	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



### 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\$781.6m
<b>Status</b>	Soft-close	<b>Currency</b>	AUD
<b>Inception Date</b>	February 2002		

**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

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

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