



Bennelong Long Short Equity Fund

Monthly Performance Update

As at 30 November 2018

Portfolio Performance

The fund had a weak month (-3.07%) as elevated market volatility and macro concerns again overshadowed fundamental company news. Fund volatility was elevated. 44% of the pairs were profitable.

The earnings updates provided at AGMs and financial results released during the month led to three profit downgrades in the short book. However, this was offset by two downgrades in the long book. Our top pair was ORI/DOW, with Orica reporting an improved result which demonstrated its multi-year restructuring and investment initiatives are starting to pay off. Our worst pair was BSL/SGM with BlueScope Steel selling off due to receding steel spreads. The company confirmed profit guidance at its AGM.

Over the year we have consistently reported on net positive financial results for companies in both the long and short portfolios. Following the last three months this is now not reflected in fund performance. So where have the positive fundamentals gone?

On the following page we have included a snapshot of some simple, weighted average fundamentals of the long and short portfolios. At the beginning of the year the difference in earnings growth and ROE between the long and short portfolios was 7.1% and 5.8%. Those differences have expanded to 9.9% and 6.6% currently. That expansion is largely a reflection of the positive fundamental company performance we refer to, and partly due to changes in composition of the portfolio. At the average level, the fundamental relative appeal of the long portfolio versus the short portfolio has improved.

A year ago the P/E of the long portfolio was 2 points higher than the short. We tend to accept paying a slight premium for our long portfolio on near term earnings, in exchange for companies with more attractive attributes. The P/E gap is now close to zero, and yet we consider the long portfolio is fundamentally more attractive than the short portfolio. Portfolio performance for the year is a combination of favourable net fundamental performance of the companies, offset by a relative derating of the long portfolio versus the short portfolio. Derating to parity has happened in the past, but is unusual. Currently, it is partly a result of some of the companies in our short portfolio being perceived as defensive, as an outcome of recent weak equity markets and concerns regarding economic growth.

Fund statistics

Fund NAV A\$M	Month End	\$403.5
Gross exposure A\$M	Month End	\$1,786.3
Fund leverage (x NAV)	Month End*	4.4
Average fund leverage (x NAV)	Since inception	4.3
Fund volatility (annualised)	Month	17.6%
Fund volatility (annualised)	Rolling 12 months	16.0%
Positive months %	Rolling 6 months	33%
Positive months %	Since inception	65%
Sharpe Ratio (basis RBA Cash)	Month	(2.2)
Sharpe Ratio (basis RBA Cash)	Rolling 12 months	0.1
Long exposure	Month End	49.7%
Short exposure	Month End	-50.3%
Fund performance (composite)	Since inception \$1.00	\$11.33

*Gearing calculated subject to variations in accruals

Significant Pairs

Top spreads for the month

Long	Orica (ORI)	Short	Downer EDI (DOW)
Long	Harvey Norman (HVN)	Short	Myer (MYR) / Coca-Cola Amatil (CCL)

Bottom spreads for the month

Long	BlueScope Steel (BSL)	Short	Sims Metal (SGM)
Long	Origin Energy (ORG)	Short	AGL Energy (AGL)
Long	ALS Ltd (ALQ)	Short	Aurizon (AZJ)

Performance

1 month	-3.07%
3 months	-13.37%
Fiscal YTD	-7.69%
12 months	3.33%
Since inception (compound p.a.)	15.51%





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Aggregate Statistics

Dec-17	Longs	Shorts	Net
Number Of Stocks	31	34	-3
Portfolio Weight	51.42	-48.57	2.9
Aggregate Statistics			
P/E	19.0	17.0	2.0
Yield	2.8	4.3	-1.5
Price / Book	3.2	1.8	1.4
Return On Equity	16.5	10.7	5.8
Forecast Earnings Growth	11.5	4.4	7.1
Forecast Dividend Growth	7.1	3.5	3.6

Nov-18	Longs	Shorts	Net
Number Of Stocks	31	35	-4
Portfolio Weight	49.67	-50.33	-0.7
Aggregate Statistics			
P/E	16.0	15.8	0.2
Yield	3.4	5.0	-1.6
Price / Book	2.6	1.6	1.0
Return On Equity	17.5	10.9	6.6
Forecast Earnings Growth	10.9	1.0	9.9
Forecast Dividend Growth	14.2	1.9	12.3

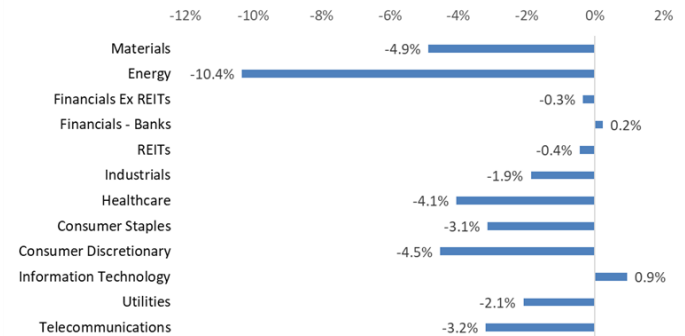
Source: UBS, Bloomberg, BLSEM

Market Observations

The ASX 200 finished down 2.8% for November which was a stark contrast to other Asian markets (MSCI ex Japan +5.2%, Nikkei +2%, Hang Seng +6.1%) and the US where the S&P 500 was up 1.8%. European markets were down with UK FTSE (-2.1%), France CAC (-1.8%) and German DAX (-1.7%).

Given the weakness in oil and iron ore over the month it was no surprise that the Energy and Materials sectors were the worst performing ASX sectors for the month of November. Banks and IT were the only sectors to eke out positive returns for the month (0.2% and 0.9%, respectively).

ASX 200 Sector Returns - November 2018



The issues that have been driving market volatility since October, namely global quantitative liquidity reversal, US/China trade war concerns, Brexit and US Fed tightening, are in a state of flux with daily headlines but limited resolution. Late in the month however the US Federal Reserve "blinked" on its hawkish stance of planned US interest rate increases, with new commentary suggesting US rates are now closer to a neutral level. Whilst initially taken positively, investors are left grappling with whether this was the typical reaction to a market sell off i.e. "the Fed put" or a realisation that we are closer to the next downturn. In Australia, house prices have fallen at an accelerating pace. The domestic economy has not had a recession since the early 1990s and a more dramatic housing correction would add risk to the domestic outlook.



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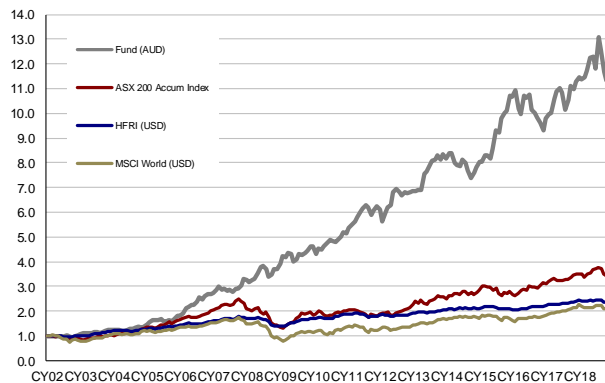
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Calendar year performance

% change cal yr	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	CYTD
2018	1.51%	-0.58%	0.83%	1.96%	4.75%	0.08%	-3.64%	10.59%	-3.85%	-7.05%	-3.07%		0.41%
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



Fund Summary

Strategy	Market Neutral, Pairs	Domicile	Australia
Manager	Bennelong Long Short Equity Management Pty Ltd	AUM	A\$763.1m
Status	Soft-close	Currency	AUD
Inception Date	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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