



# Bennelong Long Short Equity Fund

## Monthly Performance Update

As at 28 February 2019

### Portfolio Performance

Fund performance was a modest negative month. We experienced an even mix of winners and losers across the 31 pairs in the portfolio. Reporting season led to a slight downgrade to market earnings forecasts with resources positive and industrials negative. A number of companies had a soft December half and are hopeful of a better June half. The fund had hits and misses, as always, however we were comfortable with our overall hit rate based on earnings revisions.

Pair performances were closely matched with our best five pairs and worst five pairs producing a combined break even result. It was in between that we saw a modest negative return. No one pair stood out, meaning it was overall finely balanced. By sector we saw positive contributions from Financials and Healthcare, while Mining / Resources and Energy were laggards.

Notable results included Macquarie confirming guidance for strong earnings growth this year, whilst Bendigo announced a weak December half result with weak revenue and persistent cost growth. Both stocks contributed positively to the pair. On the negative side long Challenger (CGF) / short IFL, ANZ was our weakest pair due to the performance of IFL. Whilst IFL reported a very weak result which was below forecasts, (interim) management presented an optimistic update on IFL's progress on repairing the relationship with regulators, which was received well. We think it is premature to assume the impact of the Royal Commission is over.

We did not regard this results' season as a headwind to working our way through the current under-performance cycle. In a reporting season featuring more misses than hits we were pleased with the majority of the portfolio's results. The long portfolio continues to deliver superior earnings growth and return on equity/capital, relative to the short portfolio.

### Market Observations

The old adage "Don't fight the Fed", was on display in February with markets continuing to rally in the wake of January's news from US Fed Chairman Jerome Powell that the Federal Reserve will adopt a more patient approach to its policy tightening / normalisation path than previously advised. Is the Fed influencing economic activity and market direction – or the other way around? Also helping markets was signs of progress on trade negotiations between the US and China. Across the major regions, US markets gained 3% (S&P 500 +3.0%, Nasdaq +3.4%), Europe +3.9% (MSCI Europe Index), Japan +2.0% (Nikkei Index) and the rest of Asia +2.9% (MSCI Asia ex Japan Index). In all, it's been a very strong start to the calendar year for share markets. This is shown in the histogram (on the next page) of the S&P 500 showing that only 3 times in the near 100-year history of the S&P 500 has the index rallied between +10 and +12% in the first two months of the calendar year, and instead typically (i.e. 90% of the time) ranges between -6% and +10%.

| Fund statistics               |                        |           |
|-------------------------------|------------------------|-----------|
| Fund NAV A\$M                 | Month End              | \$382.8   |
| Gross exposure A\$M           | Month End              | \$1,817.3 |
| Fund leverage (x NAV)         | Month End*             | 4.7       |
| Average fund leverage (x NAV) | Since inception        | 4.3       |
| Fund volatility (annualised)  | Month                  | 16.3%     |
| Fund volatility (annualised)  | Rolling 12 months      | 16.3%     |
| Positive months %             | Rolling 6 months       | 17%       |
| Positive months %             | Since inception        | 64%       |
| Sharpe Ratio (basis RBA Cash) | Month                  | (0.7)     |
| Sharpe Ratio (basis RBA Cash) | Rolling 12 months      | (0.3)     |
| Long exposure                 | Month End              | 50.2%     |
| Short exposure                | Month End              | -49.8%    |
| Fund performance (composite)  | Since inception \$1.00 | \$11.07   |

\*Gearing calculated subject to variations in accruals

### Significant Pairs

| Top spreads for the month |                          |       |                    |
|---------------------------|--------------------------|-------|--------------------|
| Long                      | Macquarie (MQG)          | Short | Bendigo Bank (BEN) |
| Long                      | Ramsay Health Care (RHC) | Short | Healius (HLS)      |

| Bottom spreads for the month |                  |       |                             |
|------------------------------|------------------|-------|-----------------------------|
| Long                         | Challenger (CGF) | Short | IOOF (IFL) / ANZ Bank (ANZ) |
| Long                         | Caltex (CTX)     | Short | Viva Energy (VEA)           |

| Performance                     |        |
|---------------------------------|--------|
| 1 month                         | -0.82% |
| 3 months                        | -2.28% |
| Fiscal YTD                      | -9.79% |
| 12 months                       | -2.78% |
| Since inception (compound p.a.) | 15.11% |



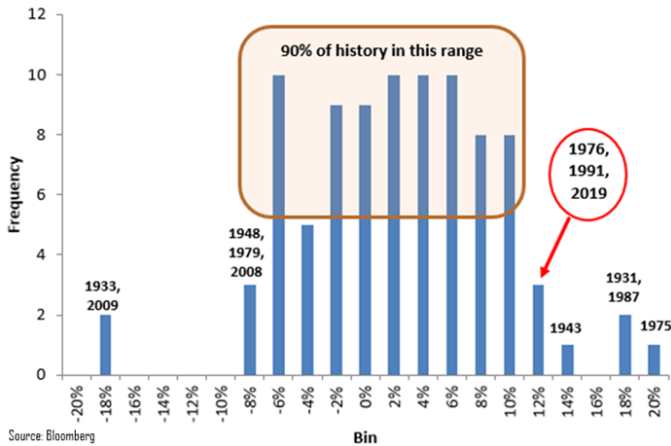


# Bennelong Long Short Equity Fund

## Monthly Performance Update

As at 28 February 2019

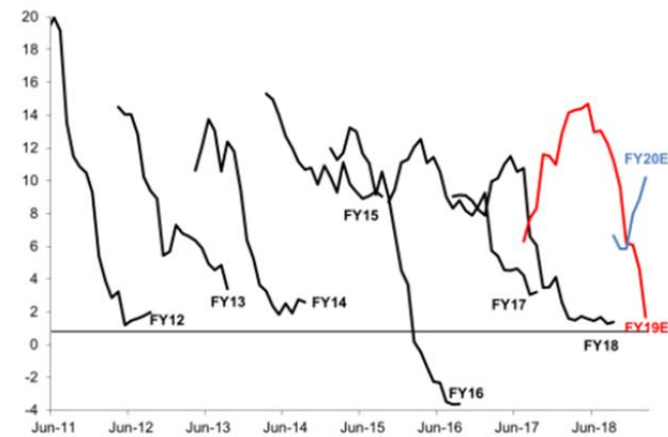
**US S&P 500 Histogram**  
Price Return over first 2 Months of Calendar Year



Locally the S&P/ASX 200 Index had a good month with a return of +5.2%. All sectors gained with the exception of Consumer Staples which was weighed down by weakness in heavy-weight Woolworths following a soft 1H interim profit result.

The results from reporting season were mixed, as is always the case. But common across the market was a general trend of negative earnings revisions (ex the resources sector), which as shown in the below chart is the norm given the tendency for analysts to forecast in accordance with management commentary that often depicts future prospects as being half-a-glass full.

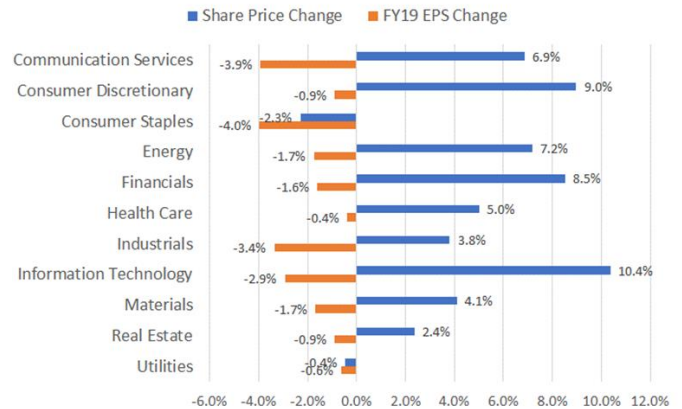
**Industrials (Mkt ex Res, Banks & LPTs) EPSg (%)**



Source: Macquarie

Our internal review of earnings revisions sector by sector also showed the same result – that is, growth forecasts for FY19 decreased for all sectors which stands somewhat in contrast with respective share price performance.

**FY19 EPS Change vs Share Price Change - February 2019**





# Bennelong Long Short Equity Fund

## Monthly Performance Update

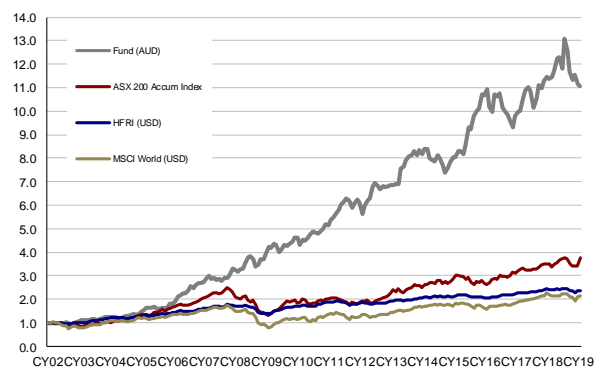
As at 28 February 2019

### Calendar year performance

| % change cal yr | Jan           | Feb           | Mar           | Apr           | May           | Jun           | Jul           | Aug           | Sep           | Oct           | Nov           | Dec           | CYTD           |
|-----------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|----------------|
| <b>2019</b>     | <b>-3.49%</b> | <b>-0.82%</b> |               |               |               |               |               |               |               |               |               |               | <b>-4.29%</b>  |
| <b>2018</b>     | <b>1.51%</b>  | <b>-0.58%</b> | <b>0.83%</b>  | <b>1.96%</b>  | <b>4.75%</b>  | <b>0.08%</b>  | <b>-3.64%</b> | <b>10.59%</b> | <b>-3.85%</b> | <b>-7.05%</b> | <b>-3.07%</b> | <b>2.09%</b>  | <b>2.51%</b>   |
| <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 (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          |  |                 |           |
|-----------------------|--|-----------------|-----------|
| <b>Strategy</b>       | Market Neutral, Pairs                          | <b>Domicile</b> | Australia |
| <b>Manager</b>        | Bennelong Long Short Equity Management Pty Ltd | <b>AUM</b>      | A\$733.7m |
| <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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