Bennelong Concentrated Australian Equities Fund
Performance update

As at 31 May 2019

Net client returns (after fees and expenses)

	1 mth	3 mths	1 Year	3 years pa	5 years pa	10 years pa	Since Inception** pa
Fund	-2.09%	2.46%	-8.59%	9.48%	13.45%	15.53%	15.95%
Benchmark*	1.75%	5.01%	10.93%	10.57%	7.79%	9.94%	10.68%
Value added	-3.84%	-2.56%	-19.52%	-1.09%	+5.67%	+5.59%	+5.27%

Performance figures are net of fees and gross of any earnings tax. 'Value added' calculation does not use rounded performance figures.
*S&P/ASX 300 Accumulation Index
**Inception date is 30 January 2009

Portfolio positioning

Portfolio Sector Allocation

Sector	Fund Weight	Benchmark* Weight	Active Weight
Discretionary	20.8%	6.6%	14.2%
Health Care	20.7%	8.5%	12.2%
Materials	22.2%	18.5%	3.8%
Consumer Staples	7.7%	5.5%	2.2%
IT	4.0%	2.4%	1.6%
Industrials	9.7%	8.2%	1.5%
Communication	4.6%	3.9%	0.7%
Liquidity	0.7%	0.0%	0.7%
REIT's	6.9%	7.7%	-0.9%
Utilities	0.0%	1.9%	-1.9%
Energy	0.0%	5.3%	-5.3%
Financials	2.6%	31.5%	-28.8%

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

Top Holdings

CSL
BHP Billiton
Aristocrat Leisure

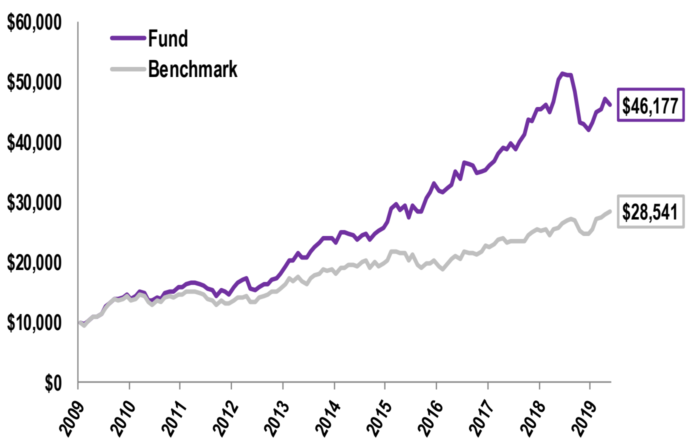
Portfolio characteristics

	Fund	Benchmark*	
Return on Equity	17.1%	12.4%	Premium Quality
Debt/Equity	28.3%	41.0%	
Sales Growth	8.9%	2.1%	Superior Growth
EPS Growth	15.4%	7.5%	
Price/Earnings	18.8x	15.8x	Reasonable Valuation
Dividend Yield	3.0%	4.6%	
Beta	1.05	1	
Active Share	80%	na	Genuinely Active
No. of Stocks	24	297	

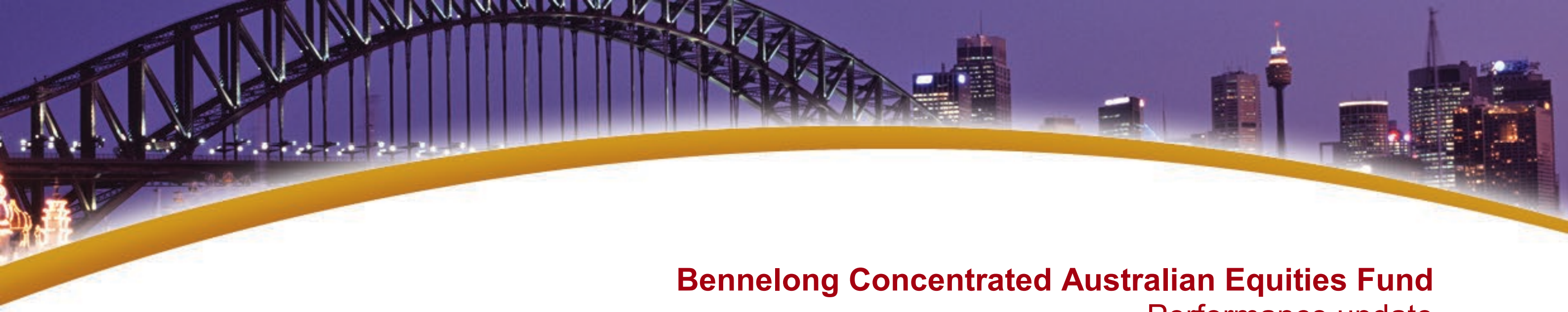
*Source: BAEP. *Benchmark is as for the Fund.*

Long-term performance

Growth of $10,000 Since Inception



Source: BAEP



Performance Update

After the fund was starting to recover from a disappointing period in the back end of last year, the fund underperformed in May.

The largest detractor was **Reliance Worldwide**. The company downgraded its earnings guidance during the month, and the shares fell in kind. As Reliance was a large weighting in the portfolio, the share price decline had a material impact on performance.

The downgrade to earnings guidance was in the order of 7%. There were a number of reasons that were provided and that cumulatively explain the softer-than-expected trading. Some of these included:

- less-than-normal freeze conditions in the US, which tends to crack or break pipes that then need replacement;
- a reduction in sales to US retailers and wholesalers who were selling down inventory levels (notwithstanding good sell-through to end-customers);
- the exit of certain products in the UK business such as thermal interface units, as management looked to focus the business on better growth opportunities;
- soft demand and increased competition for certain products such as PEXa pipe within its Spanish business; and
- reduced sales in Australia, owing to slowing residential construction activity.

These issues are in many respects one-off in nature. Despite them, we continue to believe in the company's longer term prospects. Its core Sharkbite product continues to sell through well to end-customers with strong growth, and its large-scale acquisition of John Guest looks to be on track. Indeed, based on consensus numbers, the company is set to achieve double-digits earnings growth over the next few years.

The share price decline was disappointing. At the now lower share price, the valuation has become more attractive, with less downside risk and more upside return potential. The company's shares trade on approximately 16 times next financial year's earnings, which we believe undervalues the company's quality and growth. We have kept it as a large holding in line with our views.

Another large detractor was **Corporate Travel Management**. There was little news to explain its share price weakness. That said, weakening global economic conditions have likely reduced the likelihood that it will be able to beat its full year earnings guidance. The shares trade on 20 times next financial year's earnings, and we view this as attractive given strong double-digit earnings growth for the foreseeable future.

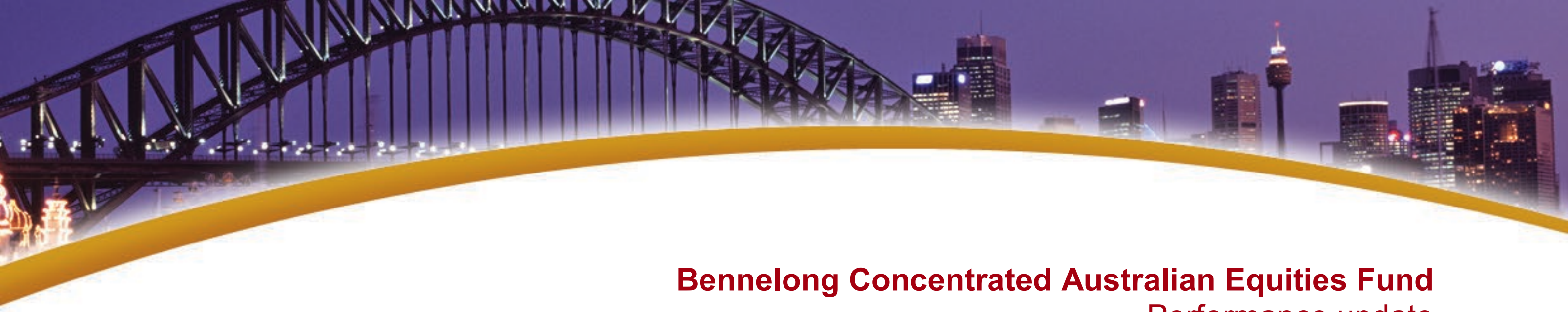
Another detractor was **Costa Group**, which downgraded its earnings guidance at its AGM during the month. The fund had been reducing the weighting of Costa in the portfolio, and the size of the position at the time of the downgrade meant the downgrade was not as impactful as it could have been. It currently remains a small position in the portfolio, with a weighting of approximately 1%.

On the other hand, **Aristocrat Leisure** helped out performance. The company reported a strong interim result during the month, with growth in revenues and earnings per share of 30% and 17% respectively. This was above the market's expectations, and the shares rose accordingly.

The company has been investing more than expected in design & development – the gaming industry's equivalent to R&D – and this augurs well for its pipeline of new game releases and longer term growth prospects. With the continued popularity and success of its slot machine games, and momentum building in its online games business, we believe the shares are attractively valued at approximately 18.5 times next financial year's earnings. It remains one of the fund's largest positions.

Performance Update

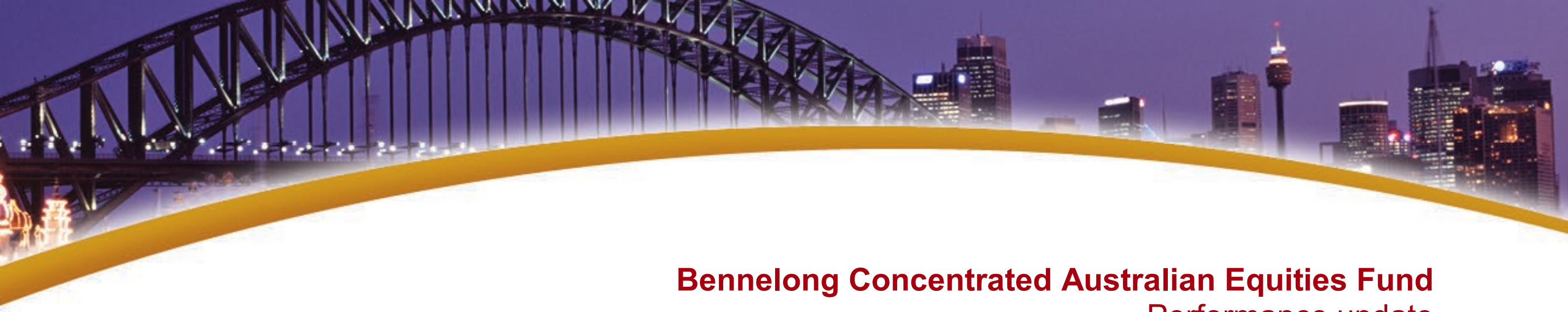
While valuation metrics such as price-to-earnings ratios appear relatively attractive for the ASX at present, the main risk that we see is that of earnings risk. This is the risk that companies disappoint investors by delivering earnings below expectations. There have been plenty of earnings downgrades right across the market. Reliance Worldwide and Costa Group were just two examples of many in recent months. Share prices have often reacted to these downgrades with disproportionately larger falls than appears justified. One can conclude that investors remain very risk-averse, short term focused and skittish.



Bearing this in mind, we are particularly focused on earnings risk within the portfolio. Our investment approach is in tune with this focus. We add, increase, trim or sell out of positions based on our conviction in earnings; in particular, our view of earnings compared to the consensus and the broader market's expectations.

The portfolio continues to be invested in a large number of high quality global business franchises. They all trade on quite reasonable earnings multiples, which we believe point to decent investor returns based on what we consider to be strong and relatively reliable growth prospects. Examples include CSL, Aristocrat Leisure, Goodman Group and Reliance Worldwide. Of course, we must remain vigilant in our research and analysis in looking for any weakness in their earnings prospects, however slight, and both in respect of the near and longer term.

We will provide further detail on our portfolio performance and positioning in the typically more expansive end-of-quarter report next month.



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As at 31 May 2019

About the Fund

The Fund typically holds 20-30 stocks across the entire spectrum of the Australian sharemarket. It primarily holds stocks from the S&P/ASX300 Index, although it can invest in stocks beyond this index.

Benefits of the Fund

- BAEP is an award winning and highly rated equities fund manager with an experienced and performance-orientated team.
- BAEP is a genuinely active and high conviction fund manager.
- The Fund is managed in accordance with BAEP's robust, disciplined and proven investment philosophy and process.
- The Fund comprises a concentration of some of BAEP's best stock ideas.
- The Fund has a track record of adding value by outperforming the market over the long term.

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.

Contact details

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

The Fund at a glance

Feature	Fund facts
APIR code	BFL0002AU
Benchmark	S&P/ASX 300 Accumulation Index
Investment objective	4% 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	30 January 2009
Recommended investment period	Medium to longer term (five years plus)
Buy/sell spread	+/-0.25%
Entry/exit fees	Nil
Management Fee	0.85% p.a. of Net Asset Value of the Fund
Performance Fee	15% of any amount by which the Fund's return is more than 2% 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, or via a range of platforms.

Platforms	
Allan Gray Solutions (Super, Pension, Investment)	IOOF (AET, IPS, Pursuit Select, TPS)
ANZ (Grow, PortfolioOne)	Macquarie Wrap (IDPS, Super, Accumulator)
AON	MLC (Navigator, Wrap)
BT (Wrap, Super Wrap, Investment Menus)	Netwealth (Super Service, Wrap Service, IDPS)
CFS (FirstWrap, IX)	Powerwrap (Smartwrap)
Credit Suisse	Wealthtrac
Federation	Wealth O2
Hub24 (Super, IDPS)	