

Bennelong Concentrated Australian Equities Fund

Performance update

As at 30 September 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	2.30%	7.09%	5.34%	12.34%	16.43%	13.77%	16.50%
Benchmark*	1.91%	2.55%	12.57%	11.85%	9.55%	8.05%	10.96%
Value added	+0.40%	+4.54%	-7.23%	+0.48%	+6.88%	+5.72%	+5.54%

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
Health Care	22.1%	9.1%	12.9%
Discretionary	18.5%	6.6%	11.9%
Consumer Staples	9.6%	5.9%	3.7%
IT	5.9%	2.6%	3.3%
Industrials	10.9%	8.1%	2.8%
Communication	4.9%	3.6%	1.3%
Liquidity	0.8%	0.0%	0.8%
REIT's	7.1%	7.8%	-0.7%
Utilities	0.0%	1.9%	-1.9%
Materials	14.3%	17.4%	-3.1%
Energy	0.0%	5.1%	-5.1%
Financials	5.9%	31.9%	-25.9%

Source: BAEP. *Benchmark is as for the Fund

Top Holdings

CSL
Reliance Worldwide
BHP Billiton

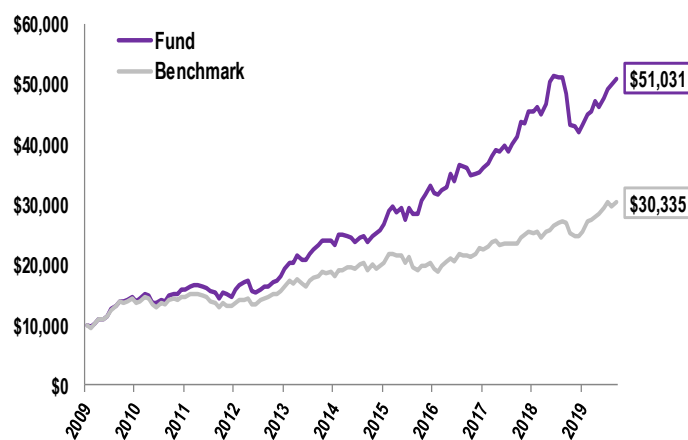
Portfolio characteristics

	Fund	Benchmark*	
Return on Equity	15.5%	12.0%	Premium Quality
Debt/Equity	27.4%	42.2%	
Sales Growth	8.2%	2.6%	Superior Growth
EPS Growth	13.5%	6.8%	
Price/Earnings	22.7x	16.9x	Reasonable Valuation
Dividend Yield	2.3%	4.2%	
Beta	1.03	1	
Active Share	78%	na	Genuinely Active
No. of Stocks	27	300	

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

Long-term performance

Growth of \$10,000 Since Inception



Source: BAEP



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Market overview & outlook

2019 has seen a number of negative economic, geopolitical and social developments, including:

- continued difficulties in Sino-US trade negotiations;
- Brexit instability;
- Hong Kong riots; and
- weakening economic conditions and outlook in Australia and globally.

Despite this, the Australian stockmarket has returned almost 23% in the calendar year to the end of September, including 2.6% in the September quarter. The takeaway is the noise is not driving returns, at least in the short term. The precipitous fall in interest rates over the year explains most of the strong performance of equities this year.

One of the main risks then is the possibility that interest rates might rise, however unlikely it currently seems. Alternatively, the earnings outlook could deteriorate to such an extent that it starts to overwhelm the valuation uplift resulting from lower rates.

Despite recent strength, we believe it pays to remain constructive on equities, although doing so will come with heightened volatility from time to time. In general, valuations are relatively attractive versus other asset classes and especially given where interest rates currently sit. ASX equities offer an earnings yield of approximately 6% plus some growth. Meanwhile, Australian sovereign bond yields sit below 1% and offer no growth, and most other asset classes sport valuation metrics well beyond historic norms.

Fund performance

The Fund outperformed nicely over the quarter, with a return of just over 7%.

Most portfolio holdings announced very strong financial results during reporting season in August. These results were largely in line with the investment team's expectations. Almost without exception, their results provided evidence of strong business momentum, better-than-expected near-term outlooks and bright longer term prospects. Just as important as the Fund's strong performance in the quarter, the strong financial results reported augers well for future returns.

Some of the largest contributors to performance were CSL, BWX, Reliance Worldwide and Treasury Wine Estates.

CSL, the global biopharmaceutical company, is the largest holding in the portfolio. It is a high quality company that reported a typically high quality result in August.

BWX, which owns Sukin and other personal care brands, is a relatively small holding within the portfolio. However, it was a large contributor as it returned an outsized 114% over the quarter (it was

the second best performer on the S&P/ASX 300 index after Dacian Gold). The stock had been a detractor in recent times, although it has been a very important contributor to the Fund's outperformance since we added it to the portfolio a few years ago. Currently, it is has a weighting of just over 3% in the portfolio.

Reliance Worldwide has also been a detractor over the past year, but was able to confirm in its financial results in August that things are going better than the market had expected.

Treasury Wine Estates continues to show very strong momentum in its business, including 25% growth last financial year and guidance for high-teens growth in this current year. Importantly for the sceptics, it was also able to deliver very strong cash flows, at the same time as investing in its inventory of premium wines for future sales and growth.

The major detractors to performance over the quarter were the REITs, the Gold sector (in which the Fund is underweight but which performed strongly), and Corporate Travel Management.

Fund positioning

True to style, the Fund is a concentrated portfolio invested at its core in a selection of high quality growth stocks. It is invested in a way that leverages our best ideas, and so looks quite different to the index. We are, however, mindful of macro and other risks, and construct the portfolio in a way that seeks to manage these risks to the extent we consider appropriate.

Some notes about current positioning:

- The Fund has a large weighting in defensive sectors that include healthcare, gaming, REITs and consumer staples. These companies provide greater earnings certainty at a time when earnings risk is increasing.
- The Fund has a heavy exposure to offshore earnings. We generally see more opportunity for attractive growth among ASX-listed global companies.
- The Fund does not hold any banks or insurers. The Fund's exposure to the financial sector is through niche operators such as Credit Corp.
- The Fund is materially underweight the top 20 stocks, many of which are mature and offer little growth. There are only four top-20 stocks held within the portfolio. We continue to see more attractive opportunities among ex-20 stocks despite their outperformance over the past year.
- The Fund is underweight the bond proxies, although it has a reasonable exposure to the REITs through stocks such as Goodman Group.

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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)	Morgan Stanley
CFS (FirstWrap, IX)	Netwealth (Super Service, Wrap Service, IDPS)
Credit Suisse	Powerwrap (Smartwrap)
Federation	Wealthtrac
Hub24 (Super, IDPS)	Wealth O2

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

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