Bennelong Concentrated Australian Equities Fund
Performance update

As at 31 December 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%	5.51%	28.28%	15.07%	15.94%	13.82%	16.66%
Benchmark*	-2.02%	0.71%	23.77%	10.33%	9.07%	7.77%	10.76%
Value added	-0.27%	+4.80%	+4.51%	+4.74%	+6.87%	+6.05%	+5.90%

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	28.1%	6.7%	21.4%
Health Care	23.9%	10.4%	13.5%
Consumer Staples	10.2%	5.7%	4.4%
Materials	19.4%	18.2%	1.2%
Liquidity	0.6%	0.0%	0.6%
Industrials	8.3%	8.4%	-0.1%
IT	2.2%	2.7%	-0.6%
Communication	2.1%	3.6%	-1.4%
Utilities	0.0%	1.8%	-1.8%
Energy	0.0%	5.4%	-5.4%
REIT's	0.6%	7.7%	-7.1%
Financials	4.6%	29.4%	-24.7%

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

Top Holdings
CSL
BHP Billiton
James Hardie Industries PLC

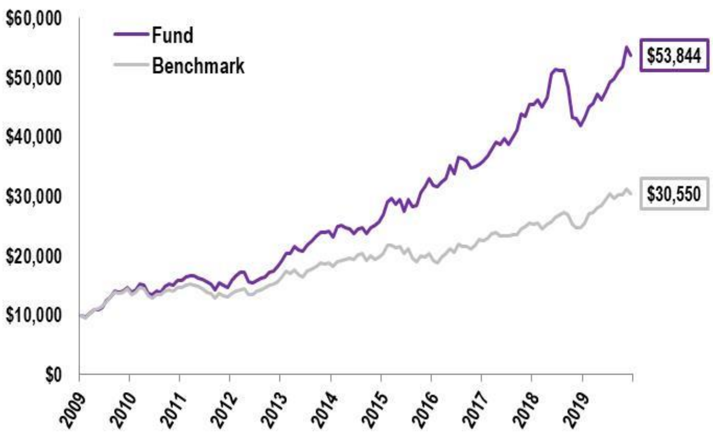
Portfolio characteristics

	Fund	Benchmark*	
Return on Equity	19.3%	11.5%	Premium Quality
Debt/Equity	23.5%	42.3%	
Sales Growth	7.9%	2.5%	Superior Growth
EPS Growth	9.2%	4.6%	
Price/Earnings	22.3x	17.6x	Reasonable Valuation
Dividend Yield	2.3%	4.1%	
Beta	1.10	1	
Active Share	78%	na	Genuinely Active
No. of Stocks	24	296	

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

Long-term performance

Growth of $10,000 Since Inception



Source: BAEP

Performance

As you can see from the performance table on the front page, the fund performed well over the year and the December quarter.

The main contributor to the quarterly performance was the fund's outsized position in the healthcare sector, and in particular is positions in Fisher & Paykel Healthcare and CSL.

Fisher & Paykel Healthcare upgraded its earnings guidance in October on the release of a new mask in the treatment of obstructive sleep apnea. It then reported a strong half year result in November, with profit growth of 24%.

CSL continues to show strong momentum in its business. In December, the company held its R&D investor day, which showcased the R&D work going on behind the scenes to help build the pipeline of new applications and treatments. CSL is set to spend approximately US$900 million (A$1.3 billion) on R&D this financial year. Historically, CSL has run a very successful R&D program, and this spend has delivered high returns on investment and underpinned longer term growth in earnings.

The other main contributor to the fund's relative outperformance was avoiding the banks' underperformance. The fund owns no banks. They currently face a number of regulatory, economic and other headwinds, and investors are starting to appreciate their weaker future prospects. Their regulatory risks were highlighted again in the quarter with the announcement of Westpac facing significant fines over breaches of anti-money laundering laws.

As always, there were detractors, but they didn't detract much. The largest detractor was Afterpay, which gave back some of the outperformance delivered in previous periods.

Outlook

The December quarter continued what has been a strong run for the ASX in 2019. The many social, political and economic uncertainties that have overshadowed markets nevertheless remain.

It all goes to show that the market's moves and investor returns are unpredictable, at least in the short term. We'll still see quite well educated and precise guesses on what's in store for 2020. None, however, come with 2020 vision.

What we do know is the current state of things, and what this scenario presents in terms of the risk-reward equation. While it would be more interesting if it weren't, most of the time the stock-market acts quite rationally. And this is how we see it today. There are three main factors:

- Valuations: Equites trade more expensive on most valuation metrics compared to historical averages, but historical averages have never had to contend with rates of about 1%. To us, equity valuations appear rational in their context. And on an earnings yield of approximately 6%, equities actually look attractively priced versus the competition (property, cash, bonds, etc).
- Fundamentals: These valuation metrics are underpinned by mostly healthy fundamentals. This includes *some* earnings growth, generally strong balance sheets and decent cash flows.
- Investor sentiment: Whilst difficult to generalise, investor sentiment remains mostly cautious. Stocks stand to benefit to the extent that investor confidence continues to gradually build, and investment dollars move from what is perceived as safe to what is perceived to give some decent return.

All up, it's likely the ASX produces reasonable returns over the medium term, albeit with ups and downs along the way. As always, there are pockets of risk and opportunity within the market, and that recommends towards a selective approach.

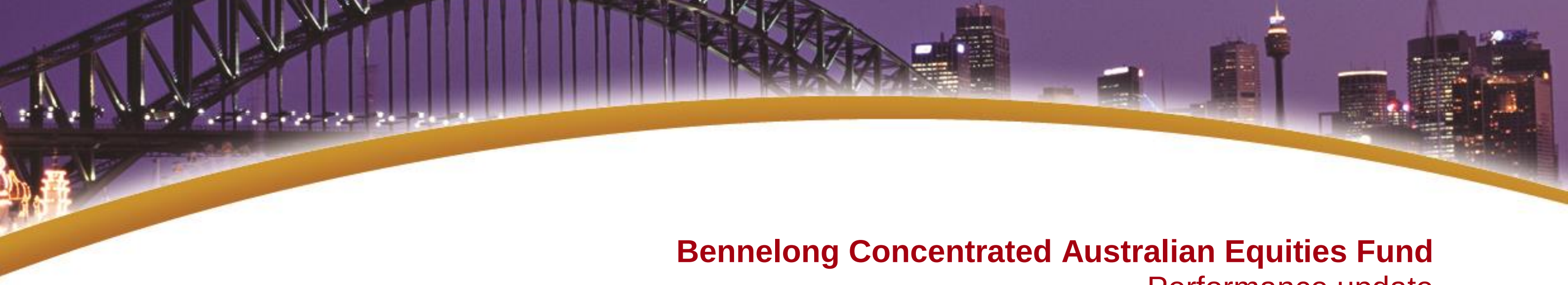
Portfolio positioning

True to our investment style, the fund is selectively invested in a group of high quality, growth stocks. These include names like CSL and Fisher & Paykel Healthcare that can be relied upon with some confidence to grow shareholder value over time.

Mostly, the portfolio is a selection of stocks determined by a 'bottom up' approach. Many of these stocks have risk-return dynamics that are driven by idiosyncratic factors, which itself provides a degree of diversification. That said, we must also take a 'top down' approach to assess risks on a portfolio-wide basis, including in relation to interest rates, trade negotiations and differing economic outcomes.

Some general themes across the portfolio include:

- A growth bias, but with a number of holdings acquired or trading on average or below-average PE multiples.
- A significant weighting to global companies and offshore earnings.
- Underweight the top 20 stocks, with no holdings in the banks or other mature, slow growth oligopolies like Woolworths and Telstra.
- Underweight bond proxies such as utilities and telco's. We have an underweight position in the REITs, and otherwise have exposure to interest rates through long-duration growth stocks.
- Selective exposure to commodities, essentially through the major mining houses. Here, we believe that demand can remain strong – and even strengthen – with an uptick in Chinese and/or global growth.
- Very little exposure to domestic cyclicals, which we believe will continue to struggle with continuing weakness in the domestic economy.



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Performance update

As at 31 December 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)	Morgan Stanley
CFS (FirstWrap, IX)	Netwealth (Super Service, Wrap Service, IDPS)
Credit Suisse	Powerwrap (Smartwrap)
Federation	Spitfire (Wealthtrac)
Hub24 (Super, IDPS)	Wealth O2

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