

Bennelong Twenty20 Australian Equities Fund

Performance update

As at 31 January 2020

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	5.21%	6.90%	28.79%	13.81%	na	na	12.04%
Benchmark*	4.89%	6.03%	24.99%	12.39%	na	na	11.73%
Value added	+0.33%	+0.86%	+3.80%	+1.42%	na	na	+0.31%

Performance figures are net of fees and expenses. 'Value added' calculation does not use rounded performance figures.

*S&P/ASX 300 Accumulation Index

**Inception date is 2 December 2015

Why choose the Twenty20 Fund?

The Fund is an enhanced index strategy. It aims to enhance the return clients receive over and above the S&P/ASX 300 index (the "benchmark").

The Fund is a neat & low cost way to invest into the ASX:

- Its performance mostly replicates that of the market but historically with a little extra return.
- It has a cost of 0.39% (plus a performance fee where applicable).
- It has relatively low turnover and tracking error.

About the Twenty20 Fund?

The Fund is a single portfolio made up of two parts:

1. an indexed position in the S&P/ASX 20 Index ("the top 20"); and
2. an active position comprising the manager's best stock ideas from outside the top 20 ("the ex-20").

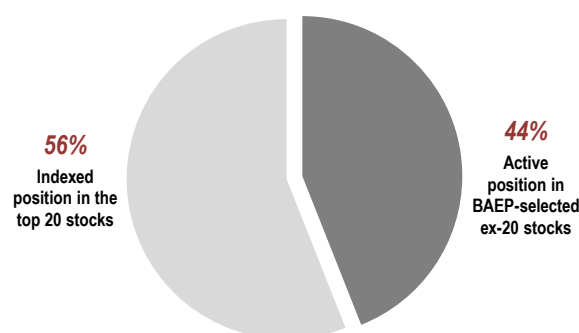
The indexed top 20 position

In the first part, the Fund has a position in each of the top 20 stocks individually. The weight of each top 20 stock is the same as its weight in the benchmark. This means the Fund's largest positions will be the same as the largest companies on the ASX, and include Commonwealth Bank, CSL and BHP. Combined, the top 20 stocks have a weight of approximately 56% in the benchmark, and so also in the Fund.

The actively managed ex-20 position

The Fund is also invested in a selection of ex-20 stocks the manager believes will outperform, which in turn allows the Fund to outperform the benchmark. They are chosen using a robust, disciplined and proven investment approach that focuses on fundamental factors such as earnings, growth prospects and valuations. Ex-20 stocks have a weight of approximately 44% in the benchmark, and so also in the Fund.

The composition of the Twenty20 Fund



The beauty of the Twenty20 Fund

The manager believes it is more difficult to outperform when investing in the top 20 stocks. The top 20 stocks are well known, heavily researched and have more broker coverage. On the other hand, the manager believes there is more opportunity to outperform when investing in ex-20 stocks which tend to be priced less efficiently.

In this context, it makes sense to index the top 20 stocks in order to keep the overall cost of the Fund down, and to exploit the opportunity to enhance returns via active management in the less efficient ex-20 segment of the market.

What returns will it provide?

Because of the large indexed position, the Fund's returns will quite closely follow the returns of the market. In technical terms, it has a relatively low tracking error.

However, the Fund's returns can deviate from the benchmark because of the active position in ex-20 stocks.

Historically, the Fund has been able to deliver a little extra return over and above the market. This fulfils the purpose of the Fund as an enhanced index fund.

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What is currently in the Fund?

The Fund has positions in the top 20 stocks and approximately 20-30 ex-20 stocks. Together, there are typically around 40-50 stocks in the portfolio at any one time.

Top Holdings
Commonwealth Bank
CSL
BHP Billiton
Westpac Banking
Aristocrat Leisure
James Hardie Industries PLC
National Australia Bank
Australia and New Zealand Banking

Source: BAEP

The Fund's sector exposures will deviate from the benchmark only to the extent that the actively managed investment in ex-20 stocks results in an over or under-weighting to any particular sector.

Sector	Fund Weight	Benchmark* Weight	Active Weight
Discretionary	19.1%	6.7%	12.4%
Liquidity	4.3%	0.0%	4.3%
Consumer Staples	7.9%	5.9%	2.0%
Health Care	11.3%	11.1%	0.3%
Communication	3.0%	3.7%	-0.7%
IT	2.2%	2.9%	-0.7%
Utilities	0.0%	1.8%	-1.8%
Materials	15.8%	17.6%	-1.9%
Industrials	6.2%	8.1%	-1.9%
REIT's	4.5%	7.8%	-3.3%
Energy	1.6%	5.2%	-3.6%
Financials	24.2%	29.3%	-5.2%

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

Together with positions in the top 20 stocks, the Fund is selectively invested in a group of high quality growth stocks. These are all stocks the manager believes can be relied upon with a high degree of confidence to grow earnings and shareholder value over time. This provides the fundamental underlay for outperformance over time. As a diversified group of stocks, we believe the Fund is set up well then for enhanced index returns.

Commentary

Markets rallied hard in the early part of January but then fell sharply on coronavirus fears. The end result was still a good one for investors.

The coronavirus fears invited a 'risk off' trade globally in which interest rates, equities, commodities and the Australian dollar saw decent falls.

The strength of the market after a very strong 2019 has surprised many investors. It all goes to show that markets are quite unpredictable.

While we are no better than others at predicting where stocks go in the short term, we believe it pays to remain constructive on equities from here. To that end, we believe:

- valuations are relatively attractive in the context of low rates and in comparison to the competition (bonds, term deposits and property);
- corporate fundamentals are supportive with *some* earnings growth, generally strong balance sheets and decent cash flows; and
- investor sentiment is still quite cautious and on the mend.

This is all supportive of reasonable returns over time, although investors should be aware it is rarely a gentle ride higher. Volatility is the price investors pay for the extra returns that equities tend to provide over time.

There is said to be a large number of uncertainties swirling around markets at present. They include ongoing US-Sino trade frictions, remaining Hong Kong tensions, Brexit fallout, a US Presidential election in November, the spread of coronavirus, and a stubbornly sluggish Australian economy. These issues are holding many back.

However, investors should understand that uncertainty is the norm when looking ahead. It always is, even though many look back on the past with the benefit of hindsight as being simpler and more predictable (the 'good old days' fallacy). It is when things seem calm and the outlook clear that investors should actually be concerned.

The Fund outperformed nicely over the month of January. We would, however, direct clients to the longer term purpose of the Fund. On this front, the Fund continues to outperform the market over its journey, which is now in its fifth year. That is, it keeps fulfilling the Fund's purpose in providing clients with a little extra return over and above the market benchmark.



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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.

About the Fund

The Bennelong Twenty20 Australian Equities Fund combines an indexed investment in the S&P/ASX 20 Index and an actively managed investment in Australian listed stocks outside of this index. It typically holds 40-55 stocks.

Benefits of the Fund

- BAEP is an award winning and highly rated equities fund manager with an experienced and performance-orientated team.
- The Fund is managed in accordance with BAEP's robust, disciplined and proven investment philosophy and process.
- The Fund provides a broad exposure to the Australian market via a combination of passive investment (in respect of the S&P/ASX20) and an actively managed investment (in respect of stocks outside of the S&P/ASX20).
- The Fund's ex-20 exposure is managed in accordance with the strategy adopted in the Bennelong ex-20 Australian Equities Fund. This fund is of high conviction and it has a track record of adding value by outperforming the market over the long term.

The Fund at a glance

Feature	Fund fact
APIR code	BFL0017AU
Benchmark	S&P/ASX 300 Accumulation Index
Investment objective	2% 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	2 December 2015
Recommended investment period	Long term (five years plus)
Buy/sell spread	+/-0.20%
Entry/exit fees	Nil
Management Fee	0.39% p.a. of Net Asset Value of the Fund
Performance Fee	15% of any amount by which the Fund's return is 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.

Platforms

AMP (Elements Investment, Elements Pension, iAccess, My North, North, Portfolio Care, Portfolio Care eWrap, PPS, Summit, Wealthview eWrap Inv)

AON Mason Stevens

CFS (FirstWrap) Netwealth (Super Service, Wrap Service, IDPS)

Credit Suisse Wealth O2

Federation Spitfire (Wealthtrac)

Contact details

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

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

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