Bennelong Long Short Equity Fund

Monthly Performance Update

As at 30 September 2021

Portfolio Performance

The fund returned negative -7.70% for September. In a weak equity market, our long portfolio underperformed the market. In addition, our short portfolio made an absolute negative return and therefore provided no hedge - which, in a weak market, is unusual for the Fund.

Commentary from the Fed regarding the prospect of reduced purchases of bonds was a factor in our performance with yields rising sharply and market sentiment swinging against companies with more dependable earnings, a key feature of our long portfolio. This led to a broad impact on our portfolio with three quarters of pairs negative.

At the pair level TPG, TUA / TLS was our top pair. TPG bounced as the market focusses on the prospect of Australia opening the border. TPG's mobile brand, Vodafone, is more familiar with inbound travellers and so was hurt by movement restrictions through the pandemic. TUA was very strong. TUA is the Singapore mobile start up spun off by TPG when it merged with Vodafone. TUA reported their full year result which showed they are well on track to reaching break even and generating strong subscriber performance. MQG/BEN was our second-best pair; MQG upgraded earnings guidance with their first half update.

QAN/FLT was our worst pair. Both stocks were strong in anticipation of resumption of international travel, however FLT was significantly stronger than QAN. Our logic for retaining the pair as Australia reopens is that QAN will emerge from COVID stronger than prior. With the restructure and ownership change at Virgin we anticipate an even more rational domestic industry. We also anticipate a strengthening of Qantas's competitive position in international. The long-term impact of COVID on FLT is less clear. FLT suffered significant dilution from its capital raise, has been forced to close a significant amount of its network and COVID has prompted acceleration of online penetration throughout the economy, which is a headwind for FLT margins. XRO/TNE was our second worst pair with neither making any material announcements to the ASX. BSL/SGM were both down, the main influence on the pair's return was that BSL is a larger position than SGM - a result of past performance. During the month BSL held an extensive investor day, at which no guidance was expected or given. Steel prices and spreads have never been better for BSL and they will enjoy an exceptional year of profit and cash generation.

Market Observations

Volatility returned to share markets in September with the combination of growth concerns, tapering concerns and renewed inflationary concerns sending markets lower. Falls were observed across all the major regions (US -5%, Europe -3%, UK -0.5%, Asia ex Japan -4%). Japan was an exception with the Nikkei Index up +5%. Worries about inflation hit bond markets too with government bond yields rallying and in the case of the UK to levels not seen since pre COVID. In Australia, the ASX 200 Index fell -2.7% and reflected widespread selling across all sectors with the resources sector weakest due to weaker metal prices, notably iron ore (down 25% over the month and now down 50% from its May peak of US$220/t). The exception to falls was energy (+16%) which was driven by a bounce in oil (+10%) and continued surging thermal coal prices to record highs (see chart on next page). The rally in Australian export coal prices is not an isolated event – other energy prices are also rallying (gas, battery metals, uranium) and is happening all around the world.

Fund statistics

Fund NAV A$M	Month End	$344.8
Gross exposure A$M	Month End	$1,530.6
Fund leverage (x NAV)	Month End*	4.4
Average fund leverage (x NAV)	Since inception	4.3
Fund volatility (annualised)	Month	16.2%
Fund volatility (annualised)	Rolling 12 months	19.1%
Positive months %	Rolling 6 months	83%
Positive months %	Since inception	64%
Sharpe Ratio (basis RBA Cash)	Month	(6.1)
Sharpe Ratio (basis RBA Cash)	Rolling 12 months	(0.7)
Long exposure	Month End	51.0%
Short exposure	Month End	-49.0%
Fund performance (composite)	Since inception $1.00	$13.75

*Gearing calculated subject to variations in accruals

Top spreads for the month

Long	TPG Telecom (TPG) / Tuas (TUA)	Short	Telstra (TLS)
Long	Macquarie (MQG)	Short	Bendigo Bank (BEN)

Bottom spreads for the month

Long	Qantas (QAN)	Short	Flight Centre (FLT)
Long	Xero (XRO)	Short	Technology One (TNE)
Long	BlueScope Steel (BSL)	Short	Sims (SGM)

Performance

1 month	-7.70%
3 months	-5.35%
Fiscal YTD	-5.35%
12 months	-13.58%
Since inception (compound p.a.)	14.26%

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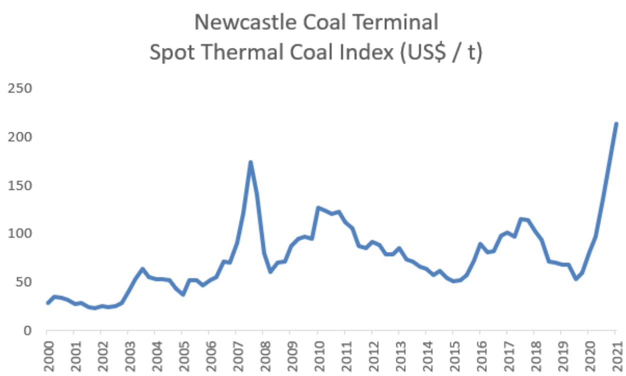
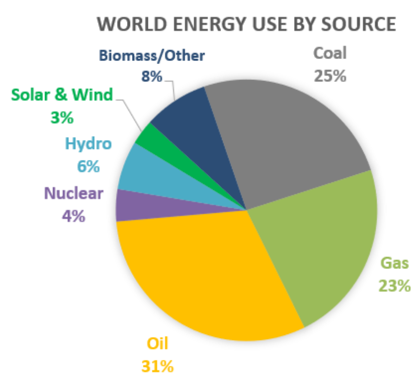
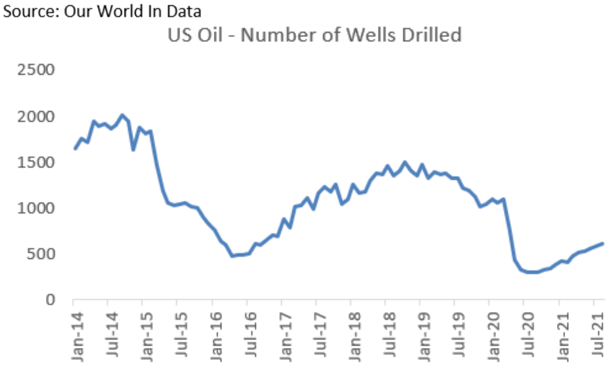


Source: Bloomberg

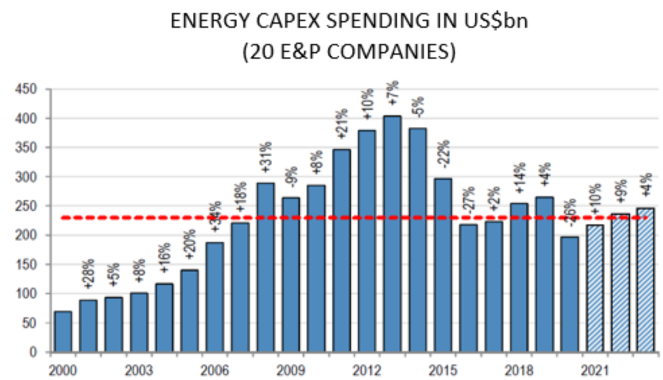
The sudden surge in energy prices is due to brewing supply shortages and in no small part is this due to decarbonisation agendas that are discouraging investment in thermal energy despite being the world's most dependent source (see pie chart below). As the CEO of Chevron, Mike Wirth, said: "Looking out for a few years, if the global economy continues to grow and recover post COVID, is there sufficient reinvestment in the energy that runs the world today? Or are we turning so quickly to the energy that runs tomorrow that we created an issue in the short term?" Evidence of underinvestment in thermal energy can be seen in the data – examples include US oil drill well numbers and aggregate capital spend from large listed exploration and production companies.



Source: Our World In Data



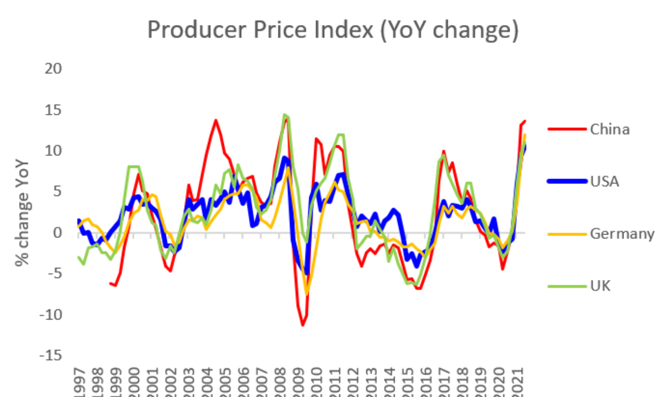
Source: Bloomberg



Source: JP Morgan Research

China's energy situation is also noteworthy. China's electricity grid is currently ~55% coal powered. Unlike the USA with an estimated >300 years of coal supply, China is estimated to have only ~40 years of remaining reserves. China also recognises, as the world's largest emitter of greenhouse gases, that climate change is as threatening to their country as it is any other, with the low-lying southern cities of Guangzhou and Shenzen rated as amongst the most vulnerable on the planet from rising sea levels. These pressures are seeing China constrain energy use with many industries being forced to idle production under government directives.

The backdrop of rising energy costs alongside other production-related challenges and cost pressures is driving up manufacturing costs across all major regions. Such pressures will need to be recovered via price increases to downstream buyers (including end consumers), which will likely challenge profit margins and end consumer demand in coming periods.



Source: Bloomberg

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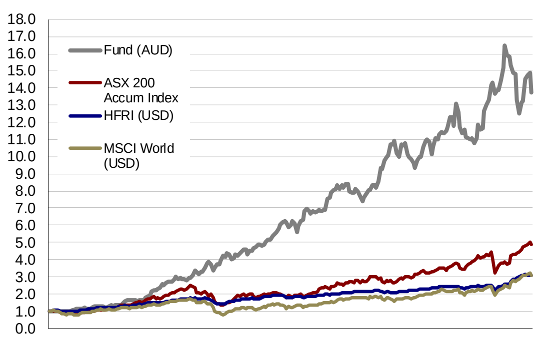
Calendar year performance

% change cal yr	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	CYTD
2021	-0.25%	-10.11%	-5.95%	5.11%	0.12%	10.11%	1.33%	1.19%	-7.70%				-7.51%
2020	6.52%	0.97%	-4.50%	1.27%	0.22%	4.19%	4.82%	8.49%	-3.26%	-0.65%	-2.95%	-3.08%	11.65%
2019	-3.49%	-0.82%	-0.84%	0.54%	-2.52%	3.00%	6.92%	-2.51%	0.65%	8.84%	2.84%	2.36%	15.17%
2018	1.51%	-0.58%	0.83%	1.96%	4.75%	0.08%	-3.64%	10.59%	-3.85%	-7.05%	-3.07%	2.09%	2.51%
2017	4.95%	2.07%	0.29%	5.84%	2.86%	1.20%	-1.42%	-6.70%	3.88%	5.29%	-1.14%	2.90%	21.12%
2016	-0.29%	2.37%	-6.73%	-2.30%	7.58%	-1.04%	1.46%	-5.90%	-1.06%	-1.76%	-2.24%	-3.23%	-13.07%
2015	2.66%	0.05%	3.59%	0.03%	-1.91%	4.86%	8.85%	-0.69%	5.71%	2.54%	0.65%	6.22%	37.11%
2014	-2.32%	2.50%	0.16%	-4.97%	-0.80%	-0.44%	3.04%	-1.56%	-3.59%	-4.33%	3.12%	2.83%	-6.63%
2013	0.46%	-0.28%	0.69%	0.01%	9.49%	1.10%	3.52%	2.27%	0.83%	1.88%	-1.80%	2.68%	22.48%
2012	-2.04%	-8.43%	6.35%	4.22%	1.19%	8.47%	1.57%	-1.61%	-2.00%	1.69%	-0.41%	0.89%	9.20%
2011	-0.59%	4.39%	1.85%	2.34%	3.09%	4.12%	2.12%	1.91%	-1.25%	-5.06%	3.09%	3.27%	20.60%
2010	0.25%	-6.16%	4.77%	-1.10%	3.24%	2.84%	2.90%	-0.96%	-0.98%	1.23%	2.87%	3.65%	12.71%
2009	5.69%	7.88%	-1.72%	4.26%	-1.24%	-7.16%	2.24%	5.61%	-1.14%	2.65%	1.71%	3.57%	23.64%
2008	-2.10%	-2.82%	3.40%	1.06%	7.07%	7.36%	1.16%	-3.57%	-8.98%	3.78%	5.78%	0.49%	11.95%
2007	0.55%	5.42%	3.62%	-3.12%	0.92%	-2.90%	1.70%	-3.72%	5.63%	-0.22%	4.41%	9.04%	22.51%
2006	1.24%	4.76%	10.16%	2.90%	2.58%	0.95%	5.57%	7.67%	-2.62%	5.22%	2.01%	1.35%	49.91%
2005	6.29%	7.29%	5.01%	-0.49%	-0.27%	1.81%	-2.87%	-1.51%	4.10%	-2.33%	2.88%	8.73%	31.64%
2004	0.19%	0.16%	0.49%	-3.41%	0.78%	2.60%	4.36%	-0.80%	3.22%	1.42%	-0.29%	1.61%	10.59%
2003	2.34%	6.21%	-0.44%	0.61%	0.82%	3.00%	-1.93%	-0.99%	2.01%	4.85%	3.78%	-1.27%	20.33%

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			
Strategy	Market Neutral, Pairs	**Domicile**	Australia
Manager	Bennelong Long Short Equity Management Pty Ltd	**AUM**	A$682.7m
Status	Soft-close	**Currency**	AUD
Inception Date	February 2002		

The Fund is managed by Bennelong Long Short Equity Management Pty Limited, a Bennelong Funds Management boutique.