

Bennelong Long Short Equity Fund

Monthly Performance Update

As at 31 January 2022

Portfolio Performance

We are disappointed with our recent performance. We are acutely aware that recent investors in the Fund have not experienced our longer-term returns. We believe patience will be rewarded. The underpinnings of our long-term performance remain intact; 1) a market that offers opportunity to profit, 2) a sound and differentiated investment strategy, and 3) an experienced and dedicated team (who are also large investors in the Fund).

At the heart of our long-short pairing strategy is a focus on being long companies with above average value creation attributes and funding these positions via shorting companies with limited opportunity to create value. Market sentiment and thematic factors constantly influence short term returns, while value creation defines long term returns. This featured in January given fundamental company news was overall favourable for the portfolio but was overwhelmed by macro events. Share prices ultimately anchor to earnings and free-cash-flow performance.

For January, performance was -6.38%. A more hawkish stance by the Fed triggered a rotation out of higher multiple stocks which was a headwind for some of our pairs.

Fundamental news for our portfolio was overall favourable. Amongst our longs JB Hi-Fi announced a preliminary result with strong sales and profit, ahead of forecasts. James Hardie upgraded profit forecasts; however, they terminated their CEO for bullying behaviour. ResMed delivered second quarter earnings which demonstrated double digit revenue growth despite being constrained by supply chain issues. Mineral Resources delivered a weak quarterly with low price realisation in the iron ore division, however the key for the outlook is strong iron ore and lithium prices and various organic growth opportunities. PointsBet delivered a quarterly in which the US segment missed forecasts as the company focussed on avoiding unprofitable customer acquisition in a very competitive, and in pockets irrational, environment.

Amongst our shorts the notable news was a large downgrade from Ansell in the aftermath of booming conditions during COVID. In addition, Ansell disclosed product from a supplier has been banned by US Customs due to that supplier using slave labour. This is the second of Ansell's suppliers to be banned in two months. While Ansell's earnings reset brings expectations back to near pre-COVID levels, we see no let-up in challenges given the large industry supply response alongside Ansell becoming more capital intensive as it builds its own plants to reduce exposure to forced labour practices.

Other than PointsBet fundamental news was not a driver of returns in our top or bottom pairs.

Market Observations

Global share markets have had a volatile start to the new year reflecting concerns about the unwind of pandemic stimulus measures (both fiscal and monetary), on-going disruption from COVID, and elevated corporate earnings risks from cost pressures. Understandably the US Nasdaq sold off the most (having previously gained the most) and similarly technology was the weakest sector for the Australian market (see second chart). A notable exception to declines was the energy sector which rallied on the back of crude oil price strength.

Fund statistics

Fund NAV A\$M	Month End	\$317.8
Gross exposure A\$M	Month End	\$1,291.8
Fund leverage (x NAV)	Month End*	4.0
Average fund leverage (x NAV)	Since inception	4.3
Fund volatility (annualised)	Month	21.0%
Fund volatility (annualised)	Rolling 12 months	20.2%
Positive months %	Rolling 6 months	50%
Positive months %	Since inception	64%
Sharpe Ratio (basis RBA Cash)	Month	(3.7)
Sharpe Ratio (basis RBA Cash)	Rolling 12 months	(0.5)
Long exposure	Month End	49.9%
Short exposure	Month End	-50.1%
Fund performance (composite)	Since inception \$1.00	\$13.22

*Gearing calculated subject to variations in accruals

Top spreads for the month

Long	Worley (WOR)	Short	Downer EDI (DOW)
Long	CSL (CSL)	Short	Sonic Healthcare (SHL)
Long	Woolworths (WOW)	Short	Coles (COL) / Treasury Wine (TWE)

Bottom spreads for the month

Long	PointsBet (PBH)	Short	SkyCity Entertainment (SKC)
Long	ALS (ALQ)	Short	Aurizon (AZJ)
Long	James Hardie (JHX)	Short	CSR (CSR)

Performance

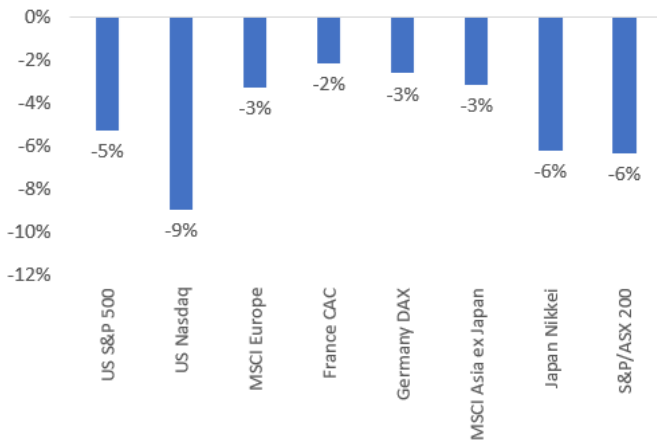
1 month	-6.38%
3 months	-6.54%
Fiscal YTD	-9.04%
12 months	-10.89%
Since inception (compound p.a.)	13.78%



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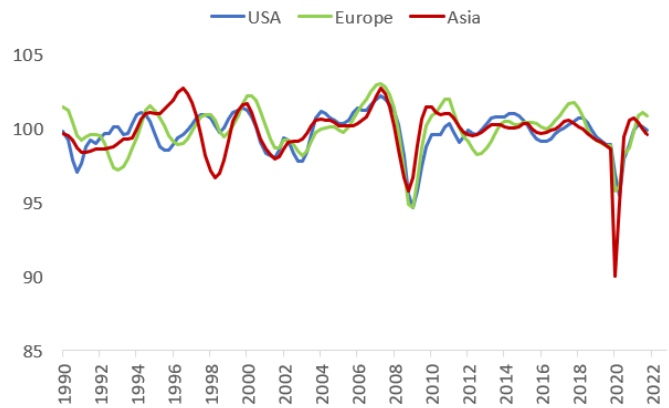
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Share Market Indices - January 2022



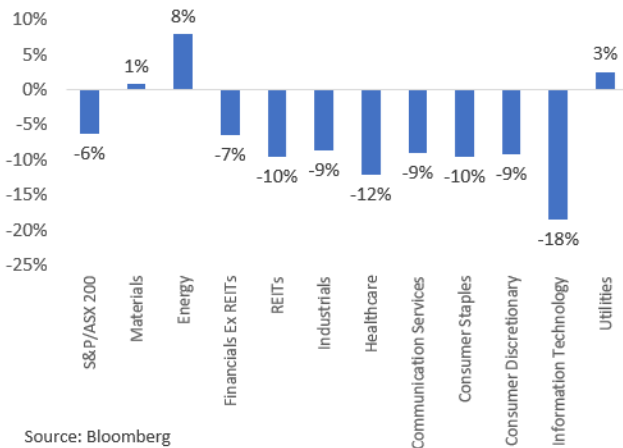
Source: Bloomberg

OECD Lead Economic Indicator



Source: Bloomberg

ASX 200 by Sector - January 2022



Source: Bloomberg

Select ASX 100 Services-Oriented Companies

Company	Service provided	Labour as a % of Total Operating Costs
Computershare	Corporate	84%
Coles	Retail	76%
Downer	Maintenance / labour	73%
Reece	Plumbing supplies	68%
Ramsay	Hospital	66%
Medibank	Health insurance	64%
Sonic	Pathology	62%
Flight centre	Travel	61%
ANZ	Banking	56%
Telstra	Telecommunications	53%

Source: Bloomberg

As noted in our prior monthly letter, market conditions have not been normal the last 2 years. Stimulus and liquidity have turbo-charged equity returns to well-above long-term averages. Without a step-up in earnings growth, which looks unlikely in the face of softening forward indicators (see following chart) and cost pressures, it is hard to be optimistic. The latter issue of cost pressures is of particular interest given the way it has evolved from initially challenging only those companies making goods (e.g. raw materials, supply logistics) to now services companies as tightening labour markets pressure wage inflation. As per the following table, labour is the dominant operating cost for service-oriented companies and those lacking pricing power will be challenged.



Bennelong Long Short Equity Fund

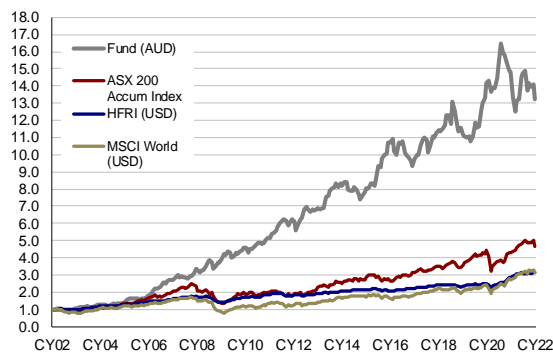
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Calendar year performance													
% change cal yr	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	CYTD
2022	-6.38%												-6.38%
2021	-0.25%	-10.11%	-5.95%	5.11%	0.12%	10.11%	1.33%	1.19%	-7.70%	2.82%	-1.49%	1.34%	-5.06%
2020	6.52%	0.97%	-4.50%	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 and 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\$603.8m
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.

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