

# Bennelong Long Short Equity Fund

## Monthly Performance Update

As at 31 May 2022

### Portfolio Performance

In a flat month for the fund the split of positive and negative pairs was 50/50, with a typical modest skew of return to top and bottom three pairs.

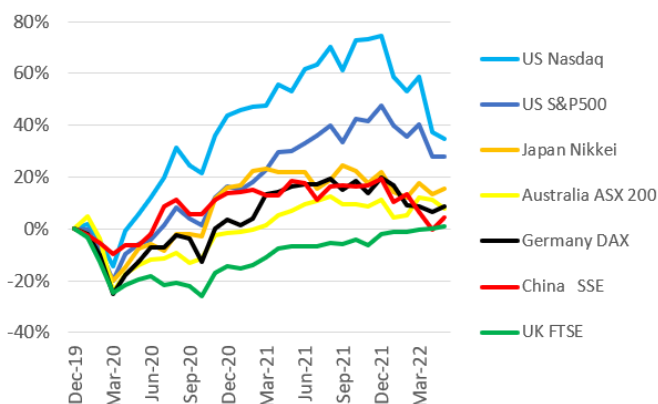
There was little company news for our top "pair" - MIN/BHP, FMG. However, offshore lithium leaders were strong which contributed to a positive month for MIN. Both stocks in our second-best pair, JHX/CSR, fell during the month as market sentiment regarding prospects for the building industry in all regions continues to deteriorate, as a consequence of rising interest rates, inflating building costs and falling affordability. CSR reported FY22 results which missed slightly. Our third-best pair, QAN/FLT, featured an upgrade from QAN with its strong Q3 trading update.

Our bottom pair was PXA/DXS with little news for either, however prospects for slower property activity could crimp PXA volumes in Australia. Our second most negative pair GMG/SGP was driven by GMG which was weak following comments from Amazon that, following a period of very significant growth, they have more than enough warehouse capacity. MQG/BEN was our third bottom pair with MQG reporting a very strong FY22 result; ahead of guidance, up 50% on last year and 5% ahead of forecasts. The market is worrying whether this is peak earnings for MQG, again.

### Market Observations

It was another subdued month for the US and Australian equity markets which fell -2% and -3% respectively. During the month the Fed lifted interest rates by 50bp and the RBA by 25bp. More importantly they signalled a more aggressive rate hike path going forward. This central bank policy shift is clearly weighing on equities market sentiment. Both central banks have also started withdrawing the extraordinary monetary support provided during the pandemic. With interest rate expectations rising, fiscal stimulus unwinding and financial conditions tightening, investors are left to ponder the risks to the downside. As can be seen in the chart below, the US S&P500 is still +28% above its pre covid level. The Australian market is +8% above its pre covid level.

Share Market Price Gain  
31 Dec 2019 to 31 May 2022



Source: Bloomberg

### Fund statistics

Fund NAV A\$M	Month End	\$190.8
Gross exposure A\$M	Month End	\$819.6
Fund leverage (x NAV)	Month End*	4.3
Average fund leverage (x NAV)	Since inception	4.3
Fund volatility (annualised)	Month	17.3%
Fund volatility (annualised)	Rolling 12 months	18.5%
Positive months %	Rolling 6 months	17%
Positive months %	Since inception	63%
Sharpe Ratio (basis RBA Cash)	Month	(0.1)
Sharpe Ratio (basis RBA Cash)	Rolling 12 months	(0.6)
Long exposure	Month End	50.9%
Short exposure	Month End	-49.1%
Fund performance (composite)	Since inception	\$11.66
	\$1.00	

\*Gearing calculated subject to variations in accruals

### Top spreads for the month

Long	Mineral Resources (MIN)	Short	BHP (BHP) / Fortescue Metals (FMG)
Long	James Hardie (JHX)	Short	CSR (CSR)
Long	Qantas Airways (QAN)	Short	Flight Centre (FLT)

### Bottom spreads for the month

Long	Pexa (PXA)	Short	Dexus (DXS)
Long	Goodman (GMG)	Short	Stockland (SGP)
Long	Macquarie (MQG)	Short	Bendigo Bank (BEN)

### Performance

1 month	-0.13%
3 months	-1.77%
Fiscal YTD	-19.78%
12 months	-11.67%
Since inception (compound p.a.)	12.84%



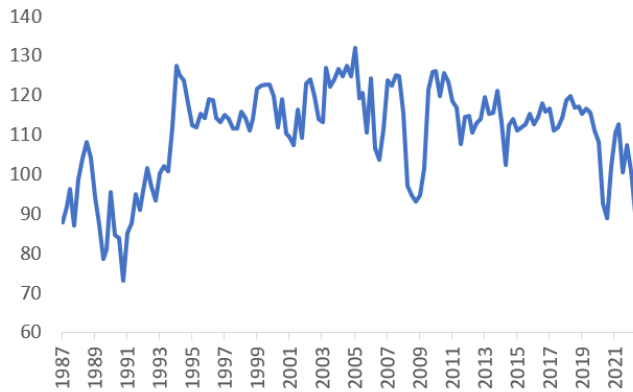
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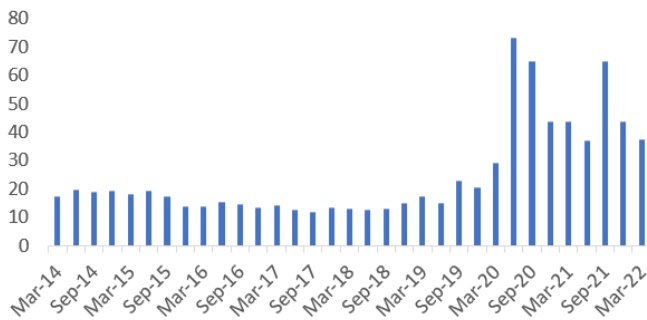
In Australia there was pressure on the consumer, tech, and real estate sectors. The sell-off in consumer stocks was consistent with weakness in consumer confidence, which has retreated to levels as low as those during historical periods of either economic stress or shock events. The decline in consumer confidence contrasts with still elevated levels of household savings, suggestive there is an ability but not an equivalent willingness to spend. Presumably brewing cost of living pressures are playing a role – for example, without relief in current wholesale electricity prices, household power bills in NSW are set to rise very materially over the coming 12m (30% on our estimates).

**ANZ-Roy Morgan  
Consumer Confidence Index**



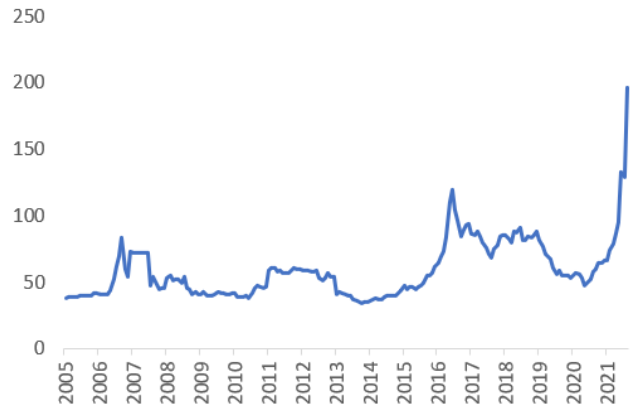
Source: Bloomberg

**Australia Household Savings  
(A\$bn per quarter)**



Source: ABS

**NSW Wholesale Electricity Price (A\$/MWh)**

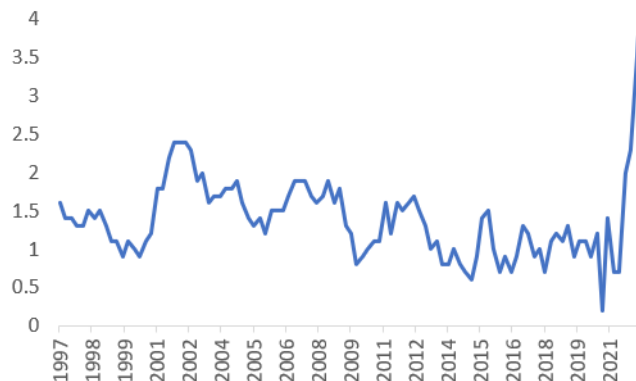


Source: Bloomberg

The outlook for equities remains challenged. Central banks are now underway with balance sheet reduction programs that involve withdrawing liquidity from financial markets. Much as central banks control the process, the risk of policy error is high and was acknowledged in a recent speech by ECB board member, Fabio Panetta, who said: "...although we have plenty of experience of how asset purchases and policy rates can reinforce each other as part of an easing strategy, we have no experience of the reverse scenario in the euro area."

The other challenge facing authorities is tackling that part of inflation coming from negative supply side shocks (e.g. energy, trade sanctions) given monetary policy does little to influence these factors (if anything, tightening financial conditions makes it harder for businesses to invest in new supply to help lower prices). Even though high inflation is already acting as a tax on households and businesses, central banks must carry on and tighten financial conditions, otherwise they risk short-term inflationary pressures finding their way into longer-term inflationary expectations.

**Euro Zone Core Inflation  
(% change on pcp)**



Source: Bloomberg



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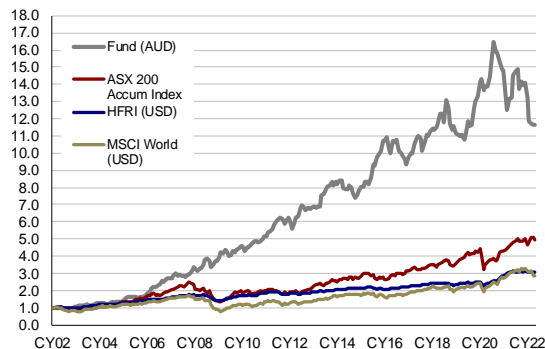
### Calendar year performance

% change cal yr	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	CYTD
<b>2022</b>	-6.38%	-10.22%	-1.23%	-0.42%	-0.13%								-17.44%
<b>2021</b>	-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%
<b>2020</b>	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%
<b>2019</b>	-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%
<b>2018</b>	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%
<b>2017</b>	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%
<b>2016</b>	-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%
<b>2015</b>	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%
<b>2014</b>	-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%
<b>2013</b>	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%
<b>2012</b>	-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%
<b>2011</b>	-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%
<b>2010</b>	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%
<b>2009</b>	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%
<b>2008</b>	-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%
<b>2007</b>	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%
<b>2006</b>	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%
<b>2005</b>	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%
<b>2004</b>	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%
<b>2003</b>	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



### Fund Summary

<b>Strategy</b>	Market Neutral, Pairs	<b>Domicile</b>	Australia
<b>Manager</b>	Bennelong Long Short Equity Management Pty Ltd	<b>AUM</b>	A\$395.7m
<b>Status</b>	Soft-close	<b>Currency</b>	AUD
<b>Inception Date</b>	February 2002		

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.

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

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