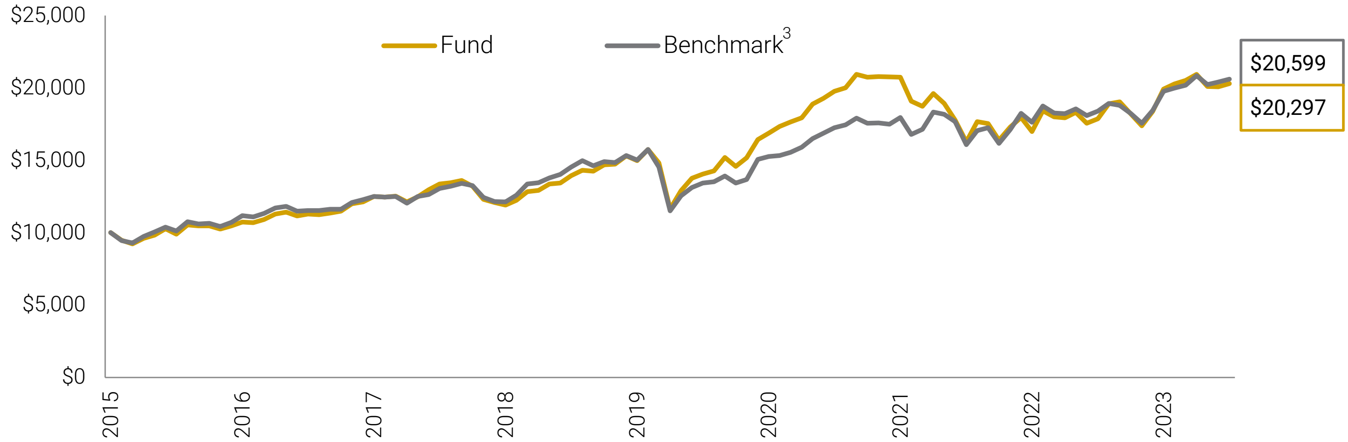
Investor Commentary | 30 June 2024

Bennelong Twenty20 Australian Equities Fund

Long-term Fund performance

Growth of $10,000 since inception[1,2]



Past performance is not indicative of future performance.

Market review

The ASX300 rose by +0.92% in June taking the FY24 return to +11.9%. There was a notable skew in performance across both sectors and size cohorts. The ASX20 (the top 20 stocks) rose by +2.1% while the mid-caps (ASX50 through to 100) fell by -1.4%. This disparity was explained by the underperformance of mid-cap resources, which fell by -11.2% over the month.

A key theme of the portfolio has been the exposure to offshore earners, particularly those companies with US earnings. The US economy is delivering solid growth with a clearer trajectory of inflation returning to target. During the month, US core inflation for May was reported, coming in below expectations at +3.4% YoY. This was down from +3.6% in April and was the lowest CPI print since April 2021. This drove a 3.5% gain in the S&P500 for the month, and a 12bp fall in the US 10-year bond yield to 4.40%. The S&P500 sector performance reflected the fall in yields with longer duration sectors such as technology leading the gains, while materials, energy and utilities underperformed.

In Australia, there were a number of economic reports during the month which overall pointed to more persistent inflation. While the Fair Work Commission's wage decision for FY25 came in marginally lower than expected at 3.75%, the final set of state budgets revealed larger deficits, the RBA was more hawkish in its June press conference and CPI data for May also revealed higher underlying inflation (+4.0% YoY versus consensus expectations for +3.8%).

This led to growing concern that the RBA may increase rates again by 25bp at its August meeting. It is telling that the Australian two-year bond yield is now just -7bps below the cash rate – there is very little in the way of interest rate cuts priced in over the next two years. This reflects the inability of the RBA to cut rates due to persistent inflation. Contrast this with the US where the two-year yield is now -89bp lower than the cash rate. ASX sector performance in June was led by financials (+5.1%), consumer staples (+4.6%) and utilities (+4.6%), while materials (-6.5%), energy (-1.6%) and industrials (- 0.2%) were the worst performers.

Fund performance

	Fund	Benchmark[3]	Value added
1 mth	1.06%	0.92%	0.14%
3 mths	-3.06%	-1.20%	-1.86%
CYTD	1.90%	4.16%	-2.26%
1 year	13.59%	11.92%	1.67%
3 years p.a.	0.90%	6.08%	-5.18%
5 years p.a.	7.81%	7.22%	0.59%
10 years p.a.	na	na	na
Since inception[1] p.a.	8.84%	8.89%	-0.05%

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

Portfolio characteristics

	Fund weight	Benchmark[3] weight	Profile
Return on equity	14.2%	12.2%	Premium quality
Debt/Equity	20.4%	36.8%	
Sales growth	4.2%	3.9%	Superior growth
EPS growth	4.3%	5.7%	
Price/Earnings	18.4x	16.7x	Reasonable valuation
Dividend yield	3.3%	3.8%	
Beta	1.04	1	
Active share	34%	na	Genuinely active
No. of Stocks	40	294	

Source: broker consensus estimates for the next 12 months

Portfolio review

The Fund delivered a return of +1.06% for June, which was +0.14% above the +0.92% benchmark return.

At a macro level, as discussed above, there was a notable impact in June from stronger inflation in Australia leading to the view that the RBA may increase interest rates in August. This saw rate-sensitive industry groups such as insurance rise, which detracted from performance by around -19bp.

Metals & mining (-7.2%) was the worst industry group in June, as concerns about China's growth led to declines in many commodities. Therefore, while Mineral Resources (MIN) is discussed as a detractor below, overall, the Fund's underweight exposure to the resources sector (which includes metals & mining and energy) provided 48bp of relative outperformance at the sector level.

We exited the MIN position in June at higher levels, while we increased the portfolio's weighting to healthcare.

The Fund's outperformance versus the benchmark was driven by stocks including Flight Centre, HUB, Pilbara Minerals (not held) and REA Group. The primary detractors this quarter included A2 Milk, IDP Education and Mineral Resources.

Top five active holdings

At month end, in alphabetical order

Stock
ARB Corporation
Breville Group
Fisher & Paykel Healthcare
IDP Education
James Hardie Industries

Top three contributors

To monthly relative performance, in alphabetical order

	Avg active position
Flight Centre Travel	Overweight
Hub24	Overweight
Pilbara Minerals	Underweight

Flight Centre (FLT)

FLT's share price saw a recovery in June, having declined in May. Industry data continues to show travel volumes are solid. Australian international outbound departures for March/April were at 100% of pre-COVID levels. TSA data in the USA has revealed the top five US airline travel days in history have all occurred this year, with the top two occurring in the last week of June. In corporate travel, US airline commentary has pointed to positive trends in 2024 to date. While many consumer categories are under pressure, older consumers have generally benefited from higher interest rates and are continuing to travel. There was also positive news around airline commissions as American Airlines started to unwind the more aggressive stance it had taken towards agents in recent months.

HUB 24 (HUB)

The stock outperformed in June due to expectations that the strength in net inflows over recent quarters will continue. HUB's competitive position remains solid, and we believe that its current 7.5% share of the platform market provides ample opportunity for further share gains. The business is expected to deliver positive operating leverage as it grows, supporting the attractive earnings growth profile.

REA Group (REA)

REA outperformed in June given the continued strong trend in new residential listings. National listings for the month of May increased 19% YoY, with Sydney up 29% and Melbourne up 36%. As a result, REA is tracking at the top end of its 5-7% FY24 listings growth guidance. Meanwhile, the 3Q24 result in May highlighted strong momentum in yield growth (growth in the average price per listing), which increased 19% YoY through price increases, depth penetration (selling a larger range of premium product) and new products.

Top three detractors

To monthly relative performance, in alphabetical order

	Avg active position
IDP Education	Overweight
Mineral Resources	Overweight
The A2 Milk Company	Overweight

Mineral Resources (MIN)

There were several factors that drove the move in the MIN share price. Most notably, the lithium spodumene price fell by 16% over the month, while the iron ore price fell by 3%. Many analysts are now factoring in multi-year surpluses in the lithium market with demand weaker and supply greater than expected. While the company announced its long awaited sale of its Onslow haul road asset, the final structure was complex, with the associated announcement of an undrawn US$750m debt facility suggesting that concerns around the company's balance sheet had been well founded. We had begun selling the position as the stock peaked in May, however, the pace of the fall resulted in a small detraction from performance in the month. We note that, overall, the portfolio benefited from an underweight exposure to the resources sector.

IDP Education (IEL)

IDP provided a market update with FY24 EBIT expected to be in-line with FY23, below consensus expectations for mid to high single digit growth. IDP also provided an outlook for FY25 study abroad market volumes to fall 20-25% given the significant regulatory challenges in Australia, the UK and Canada. IDP still expect to meaningfully outperform the industry as they continue to take market share in student placements, however, revenue growth will be challenging. Given this, IDP have implemented a cost out program to more closely align costs with revenue to limit margin compression, while also investing for the recovery once the political environment settles down and new regulations are finalised.

A2 Milk (A2M)

A2M underperformed by a small amount in June after very strong performance in May (+15% vs the market). There was some news flow around 1QCY24 China marriage registrations, which declined -9% YoY as they cycled a very strong period following the COVID reopening. Nonetheless, we continue to expect a recovery in the birth rate in 2024 and believe A2M is well placed to continue taking market share in the China infant formula market.

Outlook

Given economic growth is still solid, particularly in the US and Europe, well-run companies that have reinvested in their business should continue to grow earnings. With inflation moderating and long-term interest rates now back at more appropriate levels, the influence of interest rates on equity valuations should become less of a driver of markets moving forward, resulting in a more typical market environment, with returns driven largely by company earnings growth.

The cumulative forecast three-year earnings growth for the portfolio using market consensus forecasts is 15%, which is similar to the ASX300's growth. This similar growth is explained by the Fund's index position in the ASX20. The portfolio is higher quality, however, with an ROE of 14.2% versus the ASX300 of 12.2%. This higher ROE also comes despite lower levels of debt. The portfolio's gearing of 20.1% compares to the ASX300 at 36.8%. Over the long term, we expect the high quality to drive superior returns.

BAEP's investment philosophy and approach remains unchanged. We invest in high-quality companies that are global leaders in their niche and can sustainably compound their earnings at above market growth rates over the medium to long term. They do this by investing in R&D to develop a superior product or service which enables them to take market share and grow earnings, largely irrespective of the cycle. We take a bottom-up research approach driven by extensive company and industry contact to deepen our understanding of the companies we invest in and where earnings prospects may be under-appreciated by the market. Over the long term we believe earnings delivery drives company share prices. So, investing in quality companies delivering sustainable compound earnings growth is what will drive attractive returns for our portfolios over the medium and long term.

About the Fund

The Bennelong Twenty20 Australian Equities Fund provides a cost-effective exposure to the S&P/ASX300 universe through a combination of actively managed ex-20 securities and a passive exposure to the top 20 securities. It typically holds 40-55 names.

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')** – The Fund has a position in each top 20 security in the same weight it has in the S&P/ASX 300 index. This means the Fund's largest positions are the largest companies on the ASX. For example, if Commonwealth Bank has a weight of 7% in the index, it will also have a weight of 7% in the Fund.
2. **An active position comprising BAEP's best picks from outside the top 20 ('the ex-20')** – The Fund is also invested in a selection of ex-20 securities we believe will outperform, which in turn allows the Fund to outperform the benchmark. These securities are chosen using our proven approach that focuses on fundamental factors such as earnings, growth and valuations.

Benefits of the Fund

- Cost-effective, with a low management fee (plus a performance fee where applicable)
- Provides broad exposure to the Australian market via a combination of passive and actively managed securities
- The Fund's ex-20 exposure is managed as per the Bennelong ex-20 Australian Equities Fund's strategy. which has a track record of adding value by outperforming the market over the long term
- Managed in accordance with BAEP's robust, disciplined and proven investment philosophy and process

About BAEP

Bennelong Australian Equity Partners (BAEP) is a boutique fund manager investing in Australian listed equities. It was founded in 2008 by Mark East, in partnership with Bennelong Funds Management.

BAEP is a genuinely active, award-winning and highly-rated fund manager with an experienced and performance oriented team. Its investment philosophy is to selectively invest in high quality companies with strong growth outlooks and underestimated earnings momentum and prospects. Its investment process is research-intensive, with a focus on proprietary field research, and is supported by macro-economic and quantitative insights.

Portfolio sector allocation

Sector	Fund weight	Benchmark[3] weight	Active weight
Discretionary	18.9%	7.3%	11.5%
Communication	7.2%	3.7%	3.6%
Liquidity	2.8%	0.0%	2.8%
Health Care	12.5%	10.0%	2.5%
Consumer Staples	4.6%	4.1%	0.5%
Energy	3.4%	4.8%	-1.4%
Financials	29.6%	31.1%	-1.5%
Utilities	0.0%	1.5%	-1.5%
IT	0.0%	3.3%	-3.3%
Materials	16.8%	20.8%	-4.0%
REIT's	2.6%	6.6%	-4.0%
Industrials	1.7%	6.8%	-5.1%

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The Fund at a glance

Feature	Fund facts
APIR code	BFL0017AU
Benchmark	S&P/ASX 300 Accumulation Index
Investment objective	2% p.a. above benchmark measured over rolling 3-year periods
Active stock limit	± 5%
Cash limit	0 - 10%
Inception date	02 December 2015
Recommended investment period	Long term (five years plus)
Buy/sell spread	+/-0.20%
Entry/exit fees	Nil
Management fees and costs[4]	0.44% 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 via the PDS (available on our website), mFund (code: BAE04), or the following platforms.

- AMP (Elements Investment, Elements Pension, iAccess, My North, North, Portfolio Care, Portfolio Care eWrap, PPS, Summit, Wealthview eWrap Inv)
- BT Asgard (Master Trust, Employee Super, Infinity eWrap)
- BT (Panorama)
- CFS (FirstWrap)
- Dash
- Hub 24 (Super, IDPS)
- Macquarie Wrap (IDPS, Super)
- Mason Stevens
- Netwealth (Super Service, Wrap Service, IDPS)
- Praemium (Non Super, Super)

1 Inception date is 2 December 2015

2 Calculations are based on net returns (after fees and expenses) and assume the reinvestment of distributions.

3 S&P/ASX 300 Accumulation Index

4 Management fees and costs consist of annual management fee rate and capped recoverable expenses. For a detailed split of the fees and costs, please refer to the fund(s) PDS.