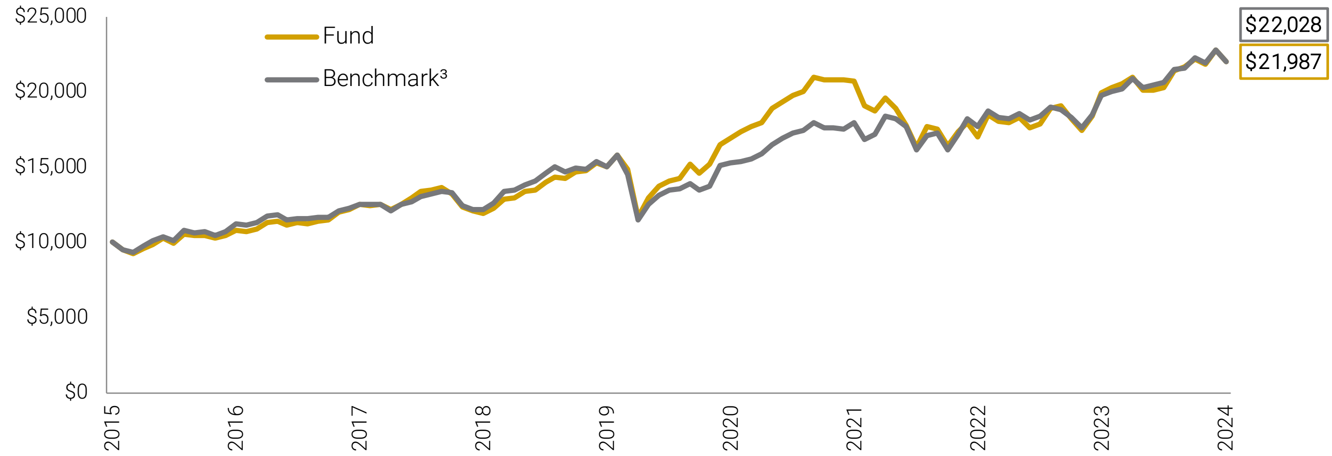
Investor commentary | 31 December 2024

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 delivered a -3.1% return in December, taking the 2024 total return to 11.4%. The tendency for the market to rally in late December was disrupted by reduced expectations for interest rate cuts by the Fed in 2025 and a resulting 40bp spike in the US 10 year bond yield.

The trend of US economic strength continued with the US December composite PMI rising to 57.6, a 33 month high. Services rose to a boom level of 58.5, a 38 month high. The jobs market has also continued to show strong growth. While the Fed delivered on an expected 25bps rate cut, the FOMC signalled a materially slower easing path through 2025. The median FOMC member now expects to deliver only 50 bps of cuts in 2025 (down from 100 bps in September). Given the continued strengthening in the US economy and Trump's proposed policy changes (namely decreasing regulation, lowering both taxes and energy prices, and raising tariffs) even 50bp of cuts may be too much.

In Australia, the Manufacturing PMI fell to 47.8 (less than 50 signifies contraction) despite the very weak AUD. The September quarter national accounts data showed real GDP growth was just 0.3% QoQ (consensus 0.6%). Per capita growth was -0.3% in the quarter and -1.5% YoY. This represents the seventh quarter in a row of per capita recession. It is the longest stretch of per capita recession since 1981/2. Government spending grew by 6.3% YoY. In contrast, the private sector contracted by 1.2% YoY. This is the first time the private sector has contracted since the 1990s. The weak numbers brought forward hopes of rate cuts by the RBA and these expectations were boosted by dovish RBA commentary. This confidence was reduced however, when employment data was released later in the month and showed that the unemployment rate dropped to 3.9%. In addition to strong employment conditions, there is an issue that the continued very strong US economy greatly reduces the probability of further rate cuts by the Fed. A Fed on hold will constrain what the RBA can do with rate cuts given the downward pressure it would place on the AUD. The interest rate futures market is pricing in more than a 50% chance of a February rate cut by the RBA. The Australian 10-year government bond moved sideways over the month, finishing at 4.37%.

The strongest ASX sectors in December were consumer staples (+0.6%), utilities (+0.4%) and industrials (+0.3%). The weakest were REITs (-6.0%), materials (-4.5%) and technology (-4.4%). The leading sectors in 2024 were technology (+48.5%) and banks (+35.8%). It is interesting that nearly 90% of the technology return was driven by higher earnings whereas 80% of the bank sector's return was due to higher PE valuation. Overall, the ASX's 2024 return was largely driven by PE expansion, which accounted for ~7 percentage points (ppts) of 2024 total return. Rising earnings added ~0.5ppt to this return, while dividends added ~4ppts. The resources sector (-14.9%) was the laggard in 2024 as weaker China growth led to lower prices for many commodities, in particular iron ore and lithium.

Fund performance

	Fund	Benchmark[3]	Value added
1 mth	-3.46%	-3.07%	-0.38%
3 mths	-0.72%	-0.81%	0.08%
CYTD	10.38%	11.39%	-1.01%
1 year	10.38%	11.39%	-1.01%
3 years p.a.	1.98%	7.06%	-5.08%
5 years p.a.	7.98%	7.97%	0.01%
10 years p.a.	na	na	na
Since inception[1] p.a.	9.28%	9.18%	0.11%

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	Benchmark[3]	Profile
Return on Equity	13.6%	11.9%	Premium Quality
Debt/Equity	26.5%	37.5%	
Sales Growth	3.7%	3.1%	Typically More Growth
EPS Growth	2.0%	4.0%	
Price/Earnings	20.2x	17.9x	Reasonable Valuation
Dividend Yield	2.8%	3.5%	
Beta	1.09	1	
Active Share	35%	na	Genuinely Active
No. of Stocks	41	299	

Source: broker consensus estimates for the next 12 months

Portfolio review

The Fund delivered a return of -3.46% for December which was -0.38% below the -3.07% benchmark return. The Fund's primary contributors in the month were BRG, SNL, and UNI. The primary detractors this month included CAR, CCP and JHX.

Top five active holdings

At month end, in alphabetical order

Company
ARB Corporation Limited
Breville Group Limited
CAR Group Limited
Fisher & Paykel Healthcare
James Hardie Industries PLC

Top three contributors

To monthly relative performance, in alphabetical order

Company	Avg active position
Breville Group Limited	Overweight
Supply Network	Overweight
Universal Stores	Overweight

Breville Group Limited (BRG)

BRG rose by 5.4% in December which followed on from its rise of 5.6% in November. Industry feedback suggests that the company enjoyed a strong period of sales through Black Friday. In particular, the company appears to be performing well in the key US market. The stock was initially softer following the US election in November given the potential disruption from US tariffs on Chinese produced goods. These fears have moderated as the company has built inventory levels and is well advanced with its plans to move the production of key products to countries outside of China.

Supply Network (SNL)

Supply Network held its AGM at the end of November which included a trading update. They reiterated guidance for 14% growth in FY25 revenue with 1H25 NPAT of $19.5-20.0m. They added that "management report good overall activity, including new enquiries. Margins have remained strong, and this is benefiting our profit after tax." Management remains confident in the growth outlook which is driven by three structural tailwinds: 1) growth in general freight volumes, 2) increasing vehicle complexity, and 3) opportunity for continued market share gains from alternative suppliers including the increasing acceptance of aftermarket parts as an alternative to OEM.

Universal Store (UNI)

There was no specific announcement by UNI in December, however, industry feedback suggests that the company performed strongly through the key Black Friday and Christmas selling periods. UNI continues to deliver strong results in what has been a difficult trading environment for many apparel retailers. Management is executing well with further opportunities for new stores as weaker competitors exit the market.

Top three detractors

To monthly relative performance, in alphabetical order

Company	Avg active position
CAR Group Limited	Overweight
Credit Corp	Overweight
James Hardie Industries PLC	Overweight

CAR Group Limited (CAR)

CAR detracted from performance during the month of December. This gave back performance from November when the stock was up 9.9% following the AGM when management re-iterated guidance for "Good Growth" in revenue and EBITDA for FY25. There appeared to be some impact from a combination of reduced US rate cut expectations for Trader Interactive and higher rates in Brazil for Webmotors. CAR's US business is expected to continue delivering good EBITDA growth in FY25 despite the current softer macro environment in RV's and Powersports and some of the RV OEM's are more optimistic on 2025. In January, CAR again re-iterated FY25 guidance for good revenue and EBITDA growth.

Credit Corp (CCP)

The stock gave back some of the 18% gain it made in the prior three months. This occurred as there was a lull in the recent news flow regarding the company's strong operational momentum that has been driving the rebound in the stock. The collections environment is expected to remain solid, and we expect that the company will be able to add to its portfolios in 2025 at reasonable prices. The backdrop is also supportive for the Consumer Lending business to return to solid earnings growth.

James Hardie Industries (JHX)

The stock fell by 10.9% in December after being up 15.0% in November. The strength in November was due to the release of the better-than-expected Q2 FY25 result and early signs of US builders seeing a pickup in enquiries and sales following the US election. There were also further rates cuts expected by the Fed. These gains were partially reversed in December as expectations for further cuts by the Fed moderated. While this may weigh on housing activity, it is important to recognise that the predominant driver of fewer rate cuts is the strength in the US economy.

Outlook

The global economy is experiencing a bifurcation, which requires a more nuanced approach to portfolio management. The US economy is already strong and is accelerating. The Fund is well-placed to take advantage of this with around two thirds of the Fund's earnings derived from outside of Australia, predominantly from North America. The corollary to the strength in the US however, is that inflation remains elevated which is leading to higher bond yields and a stronger US dollar. This is putting pressure on commodity prices and the resources sector in particular. Rising bond yields are also starting to exert financial pressures on many countries that have run policies with large fiscal and current account deficits. Despite slowing growth in many of these countries, they are unable to cut interest rates due to the inflationary pressure from elevated government spending and falling productivity. To offset the impact of higher bond yields, companies will need to deliver strong EPS growth with upgrades this year. Despite these headwinds, there are still many businesses which operate in strong niches that can continue to deliver solid growth. Examples in Australia include REA in the housing market, FPH in healthcare and HUB in financial services.

The cumulative forecast three-year earnings growth for the portfolio using market consensus forecasts is 16.0%, 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 13.6% versus the ASX300 of 11.9%. This higher ROE also comes despite lower levels of debt. The portfolio's gearing of 26.5% compares to the ASX300 at 37.5%. 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 Weight[3]	Active Weight
Discretionary	17.6%	7.9%	9.8%
Communication	7.7%	3.8%	3.9%
Liquidity	1.7%	0.0%	1.7%
Health Care	11.5%	9.9%	1.6%
Financials	32.8%	33.0%	-0.2%
IT	2.8%	3.5%	-0.7%
Consumer Staples	2.4%	3.7%	-1.3%
Energy	2.7%	4.0%	-1.3%
Utilities	0.0%	1.4%	-1.4%
Industrials	3.5%	7.3%	-3.8%
REIT's	2.6%	6.8%	-4.2%
Materials	14.6%	18.8%	-4.2%

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)

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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.