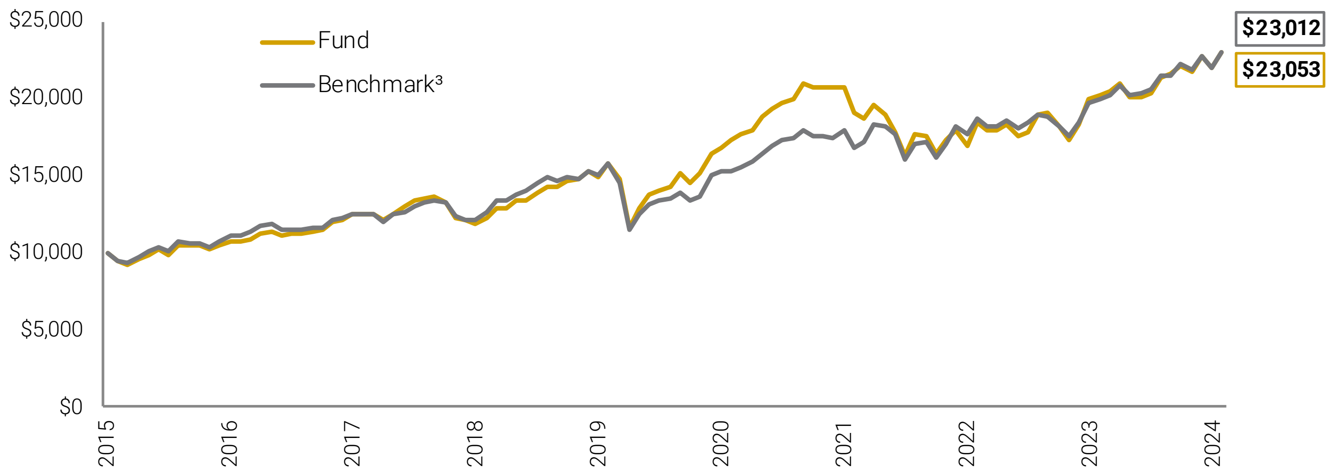
BAEP
Bennelong Australian Equity Partners

Investor Commentary | 31 January 2025

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 returned 4.5% in January. Strength was seen across the market with 10 of the 23 industry groups on the ASX posting a total return of more than 5%. In terms of sectors, Consumer Discretionary led the way (+7.1%), followed by Financials (+6.1%) and Real Estate (+4.7%). The strength in Financials was led by Insurance (+7.8%), however the Banks also rose +5.7% which was again driven by sector rerating. The aggregate bank sector PE increased 1x to 19.2x. It was notable that the Australian Tech sector finished the month +4.2% versus the S&P500 Tech sector which fell -2.9%. The AI theme was rattled in late January by the emergence of DeepSeek, a low-cost alternative to the likes of ChatGPT. There were sharp sell-offs in US stocks such as Nvidia (-10.6%), Broadcom (-4.6%), and Apple (-5.8%). The read through to Australia was relatively limited. For example GMG, which has indirect exposure to investment in AI, was volatile, but finished the month +2.3%.

The 'risk on' environment during January saw defensive sectors lag. The Utilities (-2.4%), Food & Beverage (-1.8%) and Telecom (-11%) industry groups were all down over the month. Midcaps were stronger (+5.6%) versus the ASX20 (+4.0%). Resources continued to underperform with the ASX100 Resources +2.7% versus the ASX Industrials +4.9%. This has been driven by continued weakness in Chinese economic data. The Chinese NBS manufacturing PMI deteriorated from 50.1 to 49.1 in January and is down from 52 in September when stimulus announcements from Beijing began. The NBS non-manufacturing PMI slipped from 52.2 to 50.2. Chinese companies are now starting to shed labour. The employment index fell to the weakest level since February 2020 when COVID was in its early stages. There remains a further meaningful risk to China from changes to US trade policy (largely through tariffs). We continue to have no exposure to resources or companies that have China as a material contributor to earnings.

Australian data improved modestly overall as the RBA trimmed mean CPI fell from 3.5% to 3.2%. Employment expanded by 56k positions in December and the unemployment rate rose from 3.9% to 4.0%. After the weaker-than-expected inflation print in January, the market is now pricing a 95% probability of the RBA starting a new rate cutting cycle on February 18. The 95% probably overstates the ease of the RBA's decision. In our view continued tightness in the labour market, strong government spending and a weaker AUD reduce the scope for a large RBA easing cycle this year.

US data continued to improve. The US ISM Manufacturing index broke above 50 in January (to 50.9) for the first time in 26 months (the longest stretch below 50 since the series was developed in 1948). The ISM non-manufacturing survey rose from 52.5 to 54.0. This aligns with the NFIB Small Business Optimism Index surpassing 100 for the first time in three years. These developments point to a broadening of US profit growth which we also expect to contribute to a broadening of market returns.

Post month-end, the Trump administration announced tariffs on China (10%), Canada (25%) and Mexico (25%). Combined imports in to the US from these three countries are ~45% of US total merchandise imports and 5% of US GDP. The tariffs on Mexico and Canada were quickly postponed by one month following negotiations which saw both countries step up their commitment to border controls to stop the flow of illegal drugs and immigrants into the US. China enacted a number of counter-measures to the tariffs including filing a case against the US tariffs under the WTO dispute settlement mechanism. Trump subsequently cancelled his proposed meeting with Xi and said *"If we can't make a deal with China, then the tariffs will be very, very substantial."* Market estimates are that if the 10% tariff hike is sustained it may reduce Chinese GDP growth by 0.3-0.4% via lower exports and resulting weaker investment and consumption.

The commentary around tariffs will add volatility to the market, however the initial outcomes from Canada and Mexico support our thesis that Trump is generally using the threat of punitive tariffs to deliver policy outcomes. The Chinese tariffs are more complex with far broader issues around supply chain security, drugs, balance of trade, currencies and tensions regarding Taiwan.

While the timing of policy announcements may create volatility, the backdrop in the US remains one of economic strength. Trump's broad policy agenda of deregulation, lower taxes and lower energy prices is positive for US business. To date the imposition of tariffs has been less than expected with the result that the increase in inflation is also less than many feared.

The AUD rose +0.7% in January, however it is down nearly 5% in the last few months which is a positive tailwind for stocks with offshore earnings. More than half of the portfolio earnings are derived from offshore. Domestic earnings in Australia have been revised lower for around three years now due to the impact of higher interest rates, elevated inflation and more restrictive government policy in areas such as energy, the environment and industrial relations. Economic conditions do appear to be bottoming out however, with inflation slowing, job growth solid (although much of that is driven by government) and retail sales solid, particularly from wealthier demographics. The post COVID increase in dispersion among analysts' earnings forecasts has also generally reverted to more normal levels. That said, the trend of earnings estimates being less frequently updated has continued, which may lead to confusion around where market expectations are for earnings and therefore volatility around reporting.

The aggregated consensus FY25 EPS growth across the ASX200 is just 0.2%. The forecast growth was +5.8% just six months ago. Downgrades have been particularly large in Energy and Materials where FY25 EPS growth is now forecast at -5.7% and -15.0% respectively, whereas coming into reporting season earnings revisions were positive in January in Industrials (+4.0%), Tech (+2.5%) and Health Care (+5.4%). The ASX 200 Industrials has forecast EPS growth of around 5.5%, with wide divergence between Domestic industrials expected to deliver barely positive growth while expectations are for Industrials with international earnings to report EPS growth of around 10%. Importantly, we expect earnings growth for the Fund to be 14.1% over the next 12 months and 47.9% over the next three years.

Fund performance

	Fund	Benchmark[3]	Value added
1 mth	4.85%	4.46%	0.39%
3 mths	5.77%	4.98%	0.79%
CYTD	4.85%	4.46%	0.39%
1 year	13.72%	15.09%	-1.37%
3 years p.a.	6.50%	11.07%	-4.57%
5 years p.a.	7.91%	7.88%	0.03%
10 years p.a.	na	na	na
Since inception[1] p.a.	9.76%	9.61%	0.15%

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	27.5%	38.4%	
Sales Growth	3.7%	3.2%	Typically More Growth
EPS Growth	1.6%	3.7%	
Price/Earnings	21.9x	18.9x	Reasonable Valuation
Dividend Yield	2.6%	3.4%	
Beta	1.09	1	
Active Share	35%	na	Genuinely Active
No. of Stocks	39	298	

Source: broker consensus estimates for the next 12 months

Portfolio review

The Fund returned 4.85% for January which was +0.39% above the +4.46% benchmark return. The Fund's primary contributors in the month were CAR Group (CAR), Corporate Travel Management (CTD) and HUB24 (HUB). The primary detractors this month included ARB Corporation (ARB), Fisher & Paykel (FPH) and Universal Store Holdings (UNI).

At a sector level, the Fund benefited from the underperformance of the metals and mining sector (ex gold) contributing 26bp in performance while the gold sector outperformance cost 64bp in relative performance. The portfolio's earnings remain weighted to offshore earners, in particular from the US economy.

Top five active holdings

At month end, in alphabetical order

Company
Breville Group Limited
CAR Group Limited
Fisher & Paykel Healthcare
Hub24 Ltd
James Hardie Industries PLC

Top three contributors

To monthly relative performance, in alphabetical order

Company	Avg active position
CAR Group Limited	Overweight
Corporate Travel Management	Overweight
HUB24 Limited	Overweight

CAR Group (CAR)

CAR was stronger during the month after announcing the exit of the Tyres business. Despite reduced expectations for interest rate cuts in the US, the company came out in January and reiterated its guidance for "Good Growth" in revenue and EBITDA for FY25. Some of the OEM's in the US REV sector have also made statements about their expectations for improved industry conditions in 2025.

Corporate Travel Management (CTD)

CTD has continued to strengthen on expectations that the US business is turning the corner and corporate travel activity has strengthened following the US election. US airlines are reporting solid demand in the US corporate sector. Expectations for the stock are very low, and there are a number of potentially positive catalysts as we look to calendar year 2025. New products like the Sleep Space hotels program appear to be performing well in their early days. The medium-term drivers remain resilient, with the company on track for $1b in new client wins in FY25. This is a level of win which, if sustained, can support double digit EPS growth over the medium term (which is in line with the company's five-year plan).

HUB24 Limited (HUB)

HUB released its 2Q25 report in January, delivering net inflows of $5.5bn, which was up 23% on pcp and ahead of market expectations. Platform funds under administration (FUA) increased by 8% in the quarter to $98.9b (up 36% on pcp). Management stated that it was targeting FY26 platform FUA of $115-123b. The strength in flows was across the board and didn't include any large transitions. The number of advisers added to the platform, a lead indicator for future flows, continues to be strong with 166 advisers added during the quarter taking the total adviser count to 4,886 (+14% YoY). Consensus earnings expectations for FY25 and FY26 increased 3-4% following the update.

Top three detractors

To monthly relative performance, in alphabetical order

Company	Avg active position
ARB Corporation Limited	Overweight
Fisher & Paykel Healthcare	Overweight
Universal Stores	Overweight

ARB Corporation (ARB)

ARB underperformed the market in January with concerns over weak national new car volumes being reported in recent months as well as concerns over potential exposure to US tariffs. While new car volumes have declined YoY in recent months, the new Prado model has begun delivery after months of delays and is seen as a key model for vehicle accessories for ARB. We expect stronger results from their Americas segment following investment in retail distribution, US-centric product development and their partnership with Toyota in the US on the Trailhunter models.

Fisher & Paykel Healthcare (FPH)

FPH underperformed the market in January with concerns over the potential for tariffs being implemented post Trump's inauguration. Trump had flagged potential for tariffs on Mexico, Canada and China. FPH manufacturers 45% of its global volumes in Mexico and 60% of its US sales come from Mexican operations. While uncertainty around tariffs remain, the company has come out clarifying its contingency plans to mitigate the impact of Mexican tariffs if implemented. This includes shipping product from their NZ manufacturing site to the US and using Mexican production to support other regions. The underlying operations continue to perform well with strength in both their Hospital and Homecare divisions benefitting from new products and ongoing investment to support long term growth in the business.

Universal Store Holdings (UNI)

UNI underperformed the market in Jan. While there was no specific information related to UNI there were trading updates from competitors in the apparel segment pointing to a softer consumer and competitive trading environment. We continue to expect UNI to outperform peers given their strong execution on product and management's protection of the brand value by not getting dragged into the constant promotional cycle of some of their competitors. We expect UNI will continue to take share and maintain strong profitability in a competitive category.

Outlook

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 Australia, predominantly 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. To offset the impact of higher bond yields companies will need to deliver strong EPS growth with upgrades this year. BAEP's approach of investing in those companies that are leaders in their niche with high levels of reinvestment back into their business and products should see the portfolio well positioned to deliver the strong EPS growth we believe is required.

We believe the best indicator of future returns is the expected earnings growth of the portfolio. The cumulative forecast three-year earnings growth for the Fund using market consensus forecasts is 47.9%, well above the ASX300's earnings growth of 19.4%. The portfolio is also higher quality, with an ROE of 15.4% versus the ASX300's ROE of 11.9%. This far higher ROE comes despite much lower levels of debt. The portfolio's gearing (as reflected by debt/equity) of 9.1% compares to the ASX300 at 38.4%. The Fund's PE valuation is 29.4x versus the ASX300 at 18.9x. We note, however, a more relevant valuation benchmark is the industrials ex financials, which excludes banks and resources which we either don't own or are underweight. That PE is 25.2x.

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	19.9%	8.0%	11.8%
Communication	7.5%	3.7%	3.8%
Health Care	11.1%	9.8%	1.3%
Financials	34.0%	33.5%	0.5%
Liquidity	-0.5%	0.0%	-0.5%
IT	2.8%	3.4%	-0.7%
Consumer Staples	2.4%	3.6%	-1.2%
Energy	2.6%	3.9%	-1.3%
Utilities	0.0%	1.3%	-1.3%
Industrials	3.1%	7.2%	-4.1%
REIT's	2.6%	6.8%	-4.2%
Materials	14.4%	18.7%	-4.3%

Get in touch

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.

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