

# Bennelong Twenty20 Australian Equities Fund

## Performance update

As at 31 December 2019

### Net client returns (after fees and expenses)

	1 mth	3 mths	1 Year	3 years pa	5 years pa	10 years pa	Since Inception** pa
Fund	-2.14%	1.89%	25.67%	11.72%	na	na	10.92%
Benchmark*	-2.02%	0.71%	23.77%	10.33%	na	na	10.69%
Value added	-0.11%	+1.18%	+1.90%	+1.39%	na	na	+0.23%

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

\*S&P/ASX 300 Accumulation Index

\*\*Inception date is 2 December 2015

### Introduction to the Twenty20 Fund

The Fund has been operating since December 2015. It combines a passive investment in the S&P/ASX 20 Index and an actively managed investment in Australian listed stocks outside this index. The passive investment is one that mirrors the performance of the S&P/ASX 20 Index, while the active management seeks to invest in a limited selection of ex-20 stocks that the manager believes will outperform.

The **passive position in the S&P/ASX 20 Index** is achieved by investing individually in each of the index's constituent stocks, including for example Commonwealth Bank, Telstra and CSL. The weighting in each of these 20 stocks approximates the same weight they represent in the S&P/ASX 300. The Fund's overall weight in the S&P/ASX 20 will thus approximate its weight in the S&P/ASX 300. Currently, this weight is over 50%.

Given this heavy weight in the S&P/ASX 20, the Fund's largest positions will typically coincide with those of the market, as seen in the table of the Top 10 Holdings.

The **active position in ex-20 stocks** has the goal of allowing the Fund to outperform the broader market. This active investment is managed according to the same strategy adopted in respect of the Bennelong ex-20 Australian Equities Fund. This strategy seeks to identify high quality, strongly growing companies whose earnings prospects are underestimated by the market.

Divergence in the performance of the Bennelong Twenty20 Australian Equities Fund from its benchmark, the S&P/ASX 300, will arise from the relative performance of the Fund's active investment in ex-20 stocks.

The Fund gives broad exposure across the Australian stock market and is available at a low management fee of 0.39% (plus a performance fee where applicable).

### Top Holdings

Commonwealth Bank
CSL
BHP Billiton
Westpac Banking
Australia and New Zealand Banking
National Australia Bank
Aristocrat Leisure
Goodman

Source: BAEP

The Fund's sector exposures will deviate from the benchmark to the extent that its actively managed investment in ex-20 stocks results in an over or under-weighting to any particular sector.

Sector	Fund Weight	Benchmark* Weight	Active Weight
Discretionary	18.6%	6.7%	11.9%
Liquidity	7.3%	0.0%	7.3%
Consumer Staples	8.2%	5.7%	2.4%
Health Care	10.7%	10.4%	0.4%
Communication	2.9%	3.6%	-0.6%
IT	1.3%	2.7%	-1.5%
Utilities	0.0%	1.8%	-1.8%
Industrials	6.2%	8.4%	-2.2%
REIT's	4.8%	7.7%	-2.9%
Materials	15.1%	18.2%	-3.1%
Energy	1.6%	5.4%	-3.8%
Financials	23.3%	29.4%	-6.1%

Source: BAEP. \*Benchmark is as for the Fund.



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#### Performance

The market has had a strong run in 2019, including in the December quarter. The fund added some extra return for clients by outperforming over the year and the quarter.

The relative performance versus the benchmark depends on the relative performance of the ex-20 sleeve of the portfolio.

The largest contributors to the outperformance this quarter were Fisher & Paykel Healthcare and Viva Leisure.

Fisher & Paykel Healthcare upgraded its earnings guidance in October on the release of a new mask in the treatment of obstructive sleep apnea. It then reported a strong half year result in November, with profit growth of 24%.

Viva Leisure runs a very profitable gyms business. The company started out in 2004 and came to the ASX via an IPO in June of this year. It took a few months for investors to take notice. In August, it reported its maiden financial result, where it was able to better its prospectus forecasts. The business continues to show strong momentum, assisted by acquisitions announced during the quarter.

As always, there were detractors, but they didn't detract as much as the contributors added. The largest detractor was Afterpay, which gave back some of the outperformance delivered in previous periods.

#### Portfolio positioning

As discussed on the front page, the fund is invested passively in the top 20 stocks and in a select group of ex-20 stocks.

Within the ex-20 stocks, the fund is selectively invested in a group of high quality, growth stocks. These include names like Fisher & Paykel Healthcare and Aristocrat Leisure that can be relied upon with a high degree of confidence to grow shareholder value over time.

#### Outlook

The December quarter continued what has been a strong run for the ASX in 2019. The many social, political and economic uncertainties that have overshadowed markets nevertheless remain.

This all goes to illustrate that the market's moves and investor returns are unpredictable, at least in the short term. Still, we'll see quite well educated and precise guesses on what's in store for 2020. None, however, come with 2020 vision.

What we do know is the current state of things, and what this scenario presents in terms of the risk-reward equation. While it would be more interesting if it weren't, most of the time the stock-market acts quite rationally. This is how we see it today:

- Valuations: Equities trade more expensive on most valuation metrics compared to historical averages, but historical averages have never had to contend with rates of about 1%. To us, equity valuations appear rational in their context. And on an earnings yield of approximately 6%, equities actually look attractively priced versus the competition (property, cash, bonds, etc).
- Fundamentals: These valuation metrics are underpinned by mostly healthy fundamentals. This includes *some* earnings growth, generally strong balance sheets and decent cash flows.
- Investor sentiment: Whilst difficult to generalise, investor sentiment remains mostly cautious. Stocks stand to benefit to the extent that investor confidence continues to gradually build, and investment dollars move from what is perceived as safe to what will deliver some return.

All up, it's likely the ASX produces reasonable returns over the medium term, albeit with ups and downs along the way.

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### About BAEP

Bennelong Australian Equity Partners (BAEP) is a boutique fund manager focused on Australian equities. It was founded in 2008 in partnership with Bennelong Funds Management. BAEP is a genuinely active fund manager with a consistent, disciplined and proven investment approach.

BAEP's investment philosophy is to selectively invest:

- in high quality companies;
- with strong growth outlooks; and
- underestimated earnings momentum and prospects.

BAEP's investment process is research-intensive with a focus on proprietary field research and is supported by macro-economic and quantitative insights.

### About the Fund

The Bennelong Twenty20 Australian Equities Fund combines an indexed investment in the S&P/ASX 20 Index and an actively managed investment in Australian listed stocks outside of this index. It typically holds 40-55 stocks.

### Benefits of the Fund

- BAEP is an award winning and highly rated equities fund manager with an experienced and performance-orientated team.
- The Fund is managed in accordance with BAEP's robust, disciplined and proven investment philosophy and process.
- The Fund provides a broad exposure to the Australian market via a combination of passive investment (in respect of the S&P/ASX20) and an actively managed investment (in respect of stocks outside of the S&P/ASX20).
- The Fund's ex-20 exposure is managed in accordance with the strategy adopted in the Bennelong ex-20 Australian Equities Fund. This fund is of high conviction and it has a track record of adding value by outperforming the market over the long term.

### The Fund at a glance

Feature	Fund fact
APIR code	BFL0017AU
Benchmark	S&P/ASX 300 Accumulation Index
Investment objective	2% p.a. above benchmark measured over rolling 3-year periods
Investment manager	Bennelong Australian Equity Partners (BAEP)
Active stock limit	± 10%
Cash limit	0-10%
Inception date	2 December 2015
Recommended investment period	Long term (five years plus)
Buy/sell spread	+/-0.20%
Entry/exit fees	Nil
Management Fee	0.39% 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 directly via the PDS, available on our website.

#### Platforms

AMP (Elements Investment, Elements Pension, iAccess, My North, North, Portfolio Care, Portfolio Care eWrap, PPS, Summit, Wealthview eWrap Inv)

AON Mason Stevens

CFS (FirstWrap) Netwealth (Super Service, Wrap Service, IDPS)

Credit Suisse Wealth O2

Federation Spitfire (Wealthtrac)

### Contact details

For more information, call 1800 895 388 (AU) or 0800 442 304 (NZ) or visit [baep.com.au](http://baep.com.au).

The Fund is managed by Bennelong Australian Equity Partners, a Bennelong Funds Management boutique.

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