

Bennelong Twenty20 Australian Equities Fund

Performance update

As at 29 February 2020

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	-5.92%	-3.13%	15.45%	10.78%	na	na	10.21%
Benchmark*	-7.76%	-5.22%	8.75%	8.62%	na	na	9.40%
Value added	+1.85%	+2.09%	+6.70%	+2.16%	na	na	+0.81%

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

Why choose the Twenty20 Fund?

The Fund aims to enhance the return clients receive over and above the market.

It is a clever, low cost way to invest into the ASX.

- Its performance mostly replicates that of the market, but historically adds a little extra return.
- It has a low cost of 0.39% (plus a performance fee where applicable).
- It has relatively low turnover and tracking error.

About the Twenty20 Fund?

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')

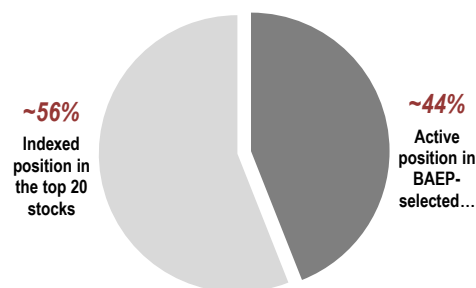
The Fund has a position in each top 20 stock, in the same weight in the Fund as they have in the S&P/ASX 300 index. This means the Fund's largest positions will be the largest companies on the ASX and include Commonwealth Bank, CSL and BHP. For example, if Commonwealth Bank has a weight of 7% in this index, it will also have a weight of 7% in the Fund. Combined, the top 20 stocks currently have a weight of approximately 56% in the index, and so also in the Fund.

2. An active position comprising BAEP's best stock ideas from outside the top 20 ('the ex-20')

The Fund is also invested in a selection of ex-20 stocks BAEP believes will outperform, which in turn allows the Fund to outperform the benchmark. They are chosen using a robust, disciplined and proven investment approach that focuses on fundamental factors such as earnings, growth and valuations.

Ex-20 stocks make up the balance of the portfolio.

The composition of the Twenty20 Fund



The beauty of the Twenty20 Fund

BAEP believes it is more difficult to outperform when investing in the top 20 stocks. The top 20 stocks are well known and heavily researched, and have more broker and media coverage. On the other hand, BAEP believes there is more opportunity to outperform when investing in ex-20 stocks, which tend to be priced less efficiently.

In this context, it makes sense to:

- index the top 20 stocks in order to keep the overall cost of the Fund down; and
- exploit the opportunity to enhance returns via active management in the less efficient ex-20 segment of the market.

This provides clients with the best of both worlds - by combining passive and active productivity.

What returns will it provide?

Because of its large indexed position, the Fund's returns will quite closely follow the returns of the market. In technical terms, this is to say the Fund has a relatively low tracking error.

However, the Fund's returns can deviate from the S&P/ASX 300 index because of its active position in ex-20 stocks. Historically, the Fund has been able to deliver a little extra return over and above the market. In this way, it fulfils its purpose as an enhanced index fund.



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What is currently in the Fund?

The Fund has positions in the top 20 stocks and approximately 20-30 ex-20 stocks. Together, there are typically around 40-50 stocks in the portfolio at any one time.

Top Holdings
Commonwealth Bank
CSL
BHP Billiton
Westpac Banking
National Australia Bank
Australia and New Zealand Banking
James Hardie Industries PLC
Bwx

Source: BAEP

The Fund's sector exposures will deviate from the benchmark only to the extent that the 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	19.0%	6.6%	12.4%
Liquidity	4.1%	0.0%	4.1%
Consumer Staples	9.2%	5.9%	3.3%
Health Care	11.3%	11.6%	-0.3%
IT	1.9%	2.6%	-0.7%
Communication	2.8%	3.6%	-0.8%
Materials	15.6%	17.0%	-1.4%
Utilities	0.0%	1.8%	-1.8%
Industrials	5.4%	8.1%	-2.7%
Energy	1.4%	4.6%	-3.2%
REIT's	4.3%	8.0%	-3.7%
Financials	25.0%	30.2%	-5.1%

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

Together with positions in the top 20 stocks, the Fund is selectively invested in a group of high quality growth stocks. These are all stocks the manager believes can be relied upon with a high degree of confidence to grow earnings and shareholder value over time. This provides the opportunity for the Fund to outperform over time. As a diversified group of stocks, we believe the Fund is well set up to provide enhanced index returns.

Commentary

The ASX reached an all-time high midway through February, but then fell hard. The S&P/ASX 300 index ended up returning -7.8% for the month. The Fund managed to outperform to mitigate some of the losses but this is small comfort for clients in the context of the falls. The market continued to ratchet down in early March.

Coronavirus (COVID-19)

The coronavirus has invited a 'risk off' trade globally in which interest rates, equities, commodities and our Australian dollar have all seen sizeable falls. Given the strength of the market in 2019, and the continuation of this strength into the start of 2020, there was a sense among some investors that the market was due a sell-off. And this is what we got.

More than anything, markets hate uncertainty, and we're seeing as much in the volatility now plaguing markets. Fear begets fear, and selling begets selling.

In China, the spread of the virus hit a peak in early February. There, the virus now appears largely contained and the country appears to be incrementally getting back to work. Interestingly, the Chinese stock market bottomed in early February – at the same time as the spread peaked - and it was the best performing market globally over the month and has been among the best this year.

From here, it all comes down to how it spreads outside of China, and very importantly in the US.

No one really knows how this will all pan out. As it currently stands, it appears the virus will become manageable. In the meantime, there will be a very real impact on the economy. This will include a hit to consumer and business confidence; a whack to demand globally; supply chain disruptions; and particular fallout in sectors such as travel that are directly in the firing line. In response, global central banks are providing monetary support - the RBA cut rates in February and there are expectations for more to come - and governments are also considering fiscal support.

At this stage, we are assuming the virus is a short term disruption, without much conviction as to exactly when it will come to pass, but perhaps only a few months more. When it does come to pass, we will then be looking ahead with the benefit of low rates, possible fiscal stimulus and some pent-up demand.

In looking beyond the short term view of the market, we have taken the opportunity to selectively up-weight our position in holdings that were heavily sold off but in which we continue to see long duration growth that will resume in time. At the same time, we continue as always to proactively and continuously manage risk within the portfolio. Right now, that means a particular focus on quality, and in particular, durable businesses with strong balance sheets. It also means ensuring



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appropriate portfolio diversification to avoid over exposure to any one risk, including to the coronavirus. The portfolio holds a number of stocks in the cross-fires of the virus, including resource stocks, consumer companies selling into China and travel-related businesses. However, these exposures are of a size appropriate to the risks they entail.

To be sure, we are monitoring the spread of the virus very closely. Clearly, the virus has potential to take grip. This could have more dire implications, including for the way we invest. That is not, however, how we see it based on the facts as they currently present.

Reporting season

February also saw in reporting season, which is when listed corporates present their first half financial results.

There are a number of comments that can be made about reporting season.

- Overall, reporting season was weak, ever so slightly more so than normal. As is usual, full year earnings forecasts for the market were revised down, to 1-2% growth for the full year financial year. There were more limited revisions to next year's forecasts, implying higher growth rates from this year's lower earnings base. This raises the risk of downward revisions hitting next year's earnings forecasts.
- Clearly, the bushfires and coronavirus overshadowed reporting season and meant there was limited clean read through.
Fears over the coronavirus created significant uncertainty and prompted guarded outlooks as well as the withdrawal or downgrading of earnings guidance. Particularly exposed were airlines (Qantas & Virgin), travel agencies (Flight Centre, Webjet & Corporate Travel), casinos (Crown and Star Entertainment) and those selling into or with operations in China (Cochlear & Bluescope Steel).
- There were mixed results within and between sectors. However, in general, higher PE stocks were more sensitive to results, displaying bigger moves up and down. This highlighted the need to get the stock picking right.
- In general, offshore earners and higher PE stocks saw earnings hold up better than domestics and value stocks, and offer materially more growth. Based on consensus numbers, offshore earners offer mid-single digit earnings growth this year and even more next. On the other hand, domestics' earnings are expected to fall.
- The banks were among the best performing over the month. Earnings expectations for the sector have previously been downgraded, and there was no need for further downward revisions off the back of the results of Commonwealth Bank, which was the only one of the big four to report results in

February. One can observe that credit growth has slowed, the big banks are losing market share to second-tier lenders, bad debts appear contained, and margins (NIMs) are so far holding up better than expected. The outlook for the banks has subsequently deteriorated with further margin pressure owing to the banks passing on fully the RBA's rate cut, and the prospect of a pick-up in bad debts in a weakened coronavirus-impacted economy. Based on consensus numbers, sector earnings are forecast to fall 5% this year, and potentially more next year.

- A key takeaway was that corporates' cash flows are strong and they have strengthened balance sheets. A part of this is a reluctance to reinvest earnings as well as preserving cash by paying less-than-expected dividends. This all bodes well for corporates to get through any coronavirus-induced economic weakness.

Outlook

Much depends from here on the spread and fears over the coronavirus. Unless the spread of the virus really takes grip – which remains a possibility – we believe the fears and short-sightedness will soon ease. At that point, we believe the outlook for equities will look quite favourable, not least because of very weak investor sentiment, low rates and relatively attractive valuations.



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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.

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

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