Bennelong ex-20 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	-2.72%	3.24%	25.05%	11.56%	13.39%	11.95%	12.48%
Benchmark*	-2.13%	1.85%	27.50%	12.27%	12.77%	8.21%	8.78%
Value added	-0.59%	+1.40%	-2.46%	-0.71%	+0.62%	+3.73%	+3.71%

Performance figures are net of fees and expenses. 'Value added' calculation does not use rounded performance figures.
*S&P/ASX 300 Accumulation Index excluding S&P/ASX 20 Leaders Index
**Inception date is 2 November 2009

Portfolio positioning

Portfolio Sector Allocation

Sector	Fund Weight	Benchmark* Weight	Active Weight
Discretionary	27.7%	9.4%	18.3%
Health Care	17.4%	8.1%	9.3%
Consumer Staples	11.3%	7.2%	4.2%
Liquidity	0.5%	0.0%	0.5%
Communication	3.0%	2.9%	0.1%
Industrials	10.3%	11.8%	-1.6%
IT	3.4%	6.2%	-2.8%
Utilities	0.0%	4.1%	-4.1%
REIT's	8.1%	12.3%	-4.2%
Materials	13.0%	17.7%	-4.7%
Financials	5.3%	11.9%	-6.6%
Energy	0.0%	8.3%	-8.3%

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

Top Holdings

Fisher & Paykel Healthcare
Aristocrat Leisure
ResMed Inc.

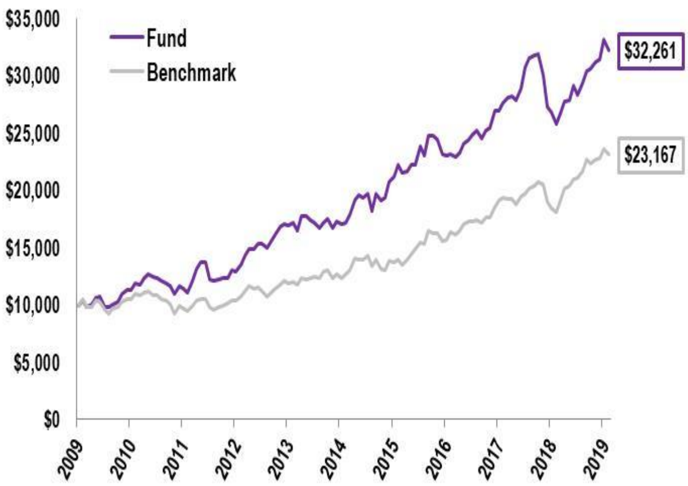
Portfolio characteristics

	Fund	Benchmark*	
Return on Equity	17.9%	10.6%	Premium Quality
Debt/Equity	24.6%	40.8%	
Sales Growth	9.1%	3.9%	Superior Growth
EPS Growth	10.1%	6.9%	
Price/Earnings	22.0x	18.2x	Reasonable Valuation
Dividend Yield	2.3%	3.5%	
Beta	1.06	1	
Active Share	83%	na	Genuinely Active
No. of Stocks	22	276	

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

Long-term performance

Growth of $10,000 Since Inception



Source: BAEP. Inception date is 2 November 2009

Bennelong ex-20 Australian Equities Fund

Performance update

As at 31 December 2019

The general market

The ASX has performed very well over the year and the December quarter, and the ex-20 benchmark has performed ever better than the broader market.

The recent strength across the ASX comes despite continuing social, political and economic uncertainty. This illustrates that market moves and investor returns are unpredictable, at least in the short term.

Currently, the stock-market appears to be functioning rationally. Valuations are reasonable; investor sentiment is generally cautious; and the fundamentals look decent, including in relation to earnings growth, balance sheets and cash flows. This all presents a reasonable risk-reward equation from which to expect reasonable returns over the foreseeable future.

As always, of course, there are pockets of risk and opportunity across the market. This recommends one takes a selective approach, which is the approach we take in managing the fund.

The opportunity in ex-20

To us, the ex-20 segment of the market is offering more for investors than the top 20. For example, in our all-cap funds, we are significantly underweight the top 20 stocks.

What is interesting about mid-caps in particular is that they have delivered higher returns and with lower volatility over the last 10 years than any other segment of the market. This contrasts with the fundamental risk-reward principle that risk and returns are positively correlated.

To us, the mid-caps represent a ‘sweet spot' in the market where there is still the quality but also more potential upside from generally better growth prospects.

There are other benefits too from moving further down in the market caps:

- Many investors lose comfort beyond the blue-chips where they feel safe, and the perceived riskiness of the lesser known small and mid-caps get priced in.
- There's less media, broker coverage and competing investor attention. This means there is greater reward for investors' own proprietary research, skill and effort.
- Investors can get more direct leverage to a particular investment trend or theme. Woolworths is essentially a play on general retail, but you can alternatively invest in category winners like JB Hi-Fi, Lovisa and Baby Bunting.
- There are typically more takeovers and IPOs that can spruce up returns. Each of these smaller cap stocks is far more likely to be taken over than Woolworths.

Another very important benefit of ex-20 stocks is the diversification benefits they offer.

Many of the large caps stocks represent much the same thing. For example, 11 of the top 20 stocks are mature, domestic-only oligopolies, with limited growth but large dividend payout ratios. Think Commonwealth Bank, Woolworths and Telstra.

In contrast, ex-20 stocks offer far greater diversity of investment propositions and this allows more genuine opportunity to diversify. This includes:

- business model;
- industry;
- stage-of-life-cycle;
- entrepreneurship;
- idiosyncratic growth strategies;
- cyclicality; and
- geographic exposure.

Today, ex-20 stocks generally look to offer better value.

Historically, ex-20 stocks have traded at a premium to the large-cap top-20 stocks. Today, the premium is as small as it's been in some time, notwithstanding they still offer more than double the growth of the top-20 stocks. For example, the price-to-earnings multiple is on a par with the PE multiple of large caps, while small caps trade on just a PE point higher. Given relative valuations historically mean revert, the implication is that small and mid-caps should outperform large caps from here. This would come after ex-20 stocks outperformed in 2019, albeit after underperforming in the market sell-off in late 2018.

That all said, it will continue to pay to remain selective, especially important when investing in small and mid-cap stocks.

Portfolio's performance

The fund has largely kept up with the very strong returns of the market. Indeed, the fund outperformed handsomely in the December quarter.

The main contributor to the quarterly performance was the fund's outsized position in the healthcare sector, and in particular in the positions Fisher & Paykel Healthcare and Resmed.

Fisher & Paykel Healthcare upgraded its earnings guidance in October on the back of 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%.

Resmed, a competitor, is also showing good operating momentum in its business. The company reported a strong first quarter result in October, with profit growth of 22%. Interestingly, Resmed also benefited through the quarter from strong growth in mask sales.

The other main contributor to the fund's relative outperformance was an underweight stance to the gold sector. This sector has been the source of underperformance over the past year. This quarter the

sector underperformed, and in relative terms, we benefited from not owning any gold stocks.

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

Portfolio positioning

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

While the portfolio is mostly built on a 'bottom up' investment approach, there are some general themes that can be identified across the portfolio. They include:

- A growth bias, but with a number of holdings acquired or trading on average or below-average PE multiples.
- A significant weighting to global companies. Looking into the portfolio, approximately two-thirds of earnings derive from offshore.
- Underweight bond proxies such as utilities and telco's. We have an underweight position in the REITs, and otherwise have exposure to interest rates through long-duration growth stocks.
- Limited, selective exposure to commodities. This is less about our views on the outlook for commodity prices – which we believe can hold up – and more about the lack of quality resource exposures in the ex-20 segment of the market.
- Heavy weighting to companies with quite defensive end-consumer demand. Thus, a heavy weight in healthcare and consumer staples.
- Very little exposure to domestic cyclicals, which we believe will continue to struggle with continuing weakness in the domestic economy. This includes builders, media companies and retailers.
- Some exposure to offshore cyclicals, most particularly in the building materials sector.

Bennelong ex-20 Australian Equities Fund

Performance update

As at 31 December 2019

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 ex-20 Australian Equities Fund typically holds 20-35 stocks across all but the top 20 stocks of the Australian share market.

Benefits of the Fund

- BAEP is an award winning and highly rated equities fund manager with an experienced and performance-orientated team.
- BAEP is a genuinely active and high conviction fund manager.
- The Fund is managed in accordance with BAEP's robust, disciplined and proven investment philosophy and process.
- In comparison to the typical domestic core equity portfolio, the Fund offers genuine diversification and greater exposure to the rich opportunity set outside of the largest 20 stocks.
- The Fund has a long term track record of adding value by outperforming the market over the long term.

Contact details

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

The Fund at a glance

Feature	Fund fact
APIR code	BFL0004AU
Benchmark	S&P/ASX 300 Accumulation Index excluding S&P/ASX 20 Leaders Index
Investment objective	4% 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 November 2009
Recommended investment period	Long term (five years plus)
Buy/sell spread	+/-0.25%
Entry/exit fees	Nil
Management Fee	0.95% 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 excluding S&P/ASX 20 Leaders Index

How to invest

The Fund is open to investors directly via the PDS, available on our website, or via a range of platforms.

Platforms	
AMP (Advantage, iAccess, Investment Service, My North, North, Pension Service, Portfolio Advantage, Portfolio Care, Portfolio Care eWrap, PPS, Summit, Synergy, Wealthview eWrap Inv)	
Allan Gray Solutions (Super, Pension, Investment)	IOOF (AET, IPS, Lifetrack, Portfolio Services, SuperWrap, Pursuit Select, Pursuit Select (PIS), Employer Super, TPS)
ANZ (Grow, PortfolioOne)	JBWere
AON	Linear
Asgard (Master Trust, eWrap, Employee Super, Infinity)	Macquarie Wrap (IDPS, Super)
Australian Unity (Lifeplan Investment Bond)	Mason Stevens
Bridges TPS	MLC (Navigator, Wrap)
BT (Wrap, Super Wrap, Panorama)	Morgan Stanley
CFS (FirstChoice, FirstWrap, IX)	Netwealth (Super Service, Wrap Service, IDPS)
Credit Suisse	Oasis (Dominion, Matrix, Mentor)
Federation	Powerwrap (Super, Pension, Smartwrap)
Hub24 (Super, IDPS)	Spitfire (Wealthtrac)
	Wealth O2