

# Bennelong Concentrated Australian Equities Fund

## Performance update

As at 30 November 2018

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

	1 mth	3 mths	6 mths	1 Year	3 years pa	5 years pa	Since Inception** pa
Fund	-0.67%	-15.92%	-14.72%	-1.17%	10.89%	12.48%	16.00%
Benchmark*	-2.18%	-9.29%	-3.85%	-1.03%	7.69%	5.82%	9.64%
Value added	+1.51%	-6.63%	-10.87%	-0.13%	+3.19%	+6.66%	+6.36%

Performance figures are net of fees and gross of any earnings tax. 'Value added' calculation does not use rounded performance figures.

\*S&P/ASX 300 Accumulation Index

\*\*Inception date is 30 January 2009

### Portfolio positioning

Portfolio Sector Allocation			
Sector	Fund Weight	Benchmark* Weight	Active Weight
Discretionary	30.5%	6.5%	24.1%
Health Care	20.8%	8.4%	12.4%
Consumer Staples	18.1%	5.6%	12.4%
Industrials	9.6%	8.0%	1.6%
Liquidity	0.4%	0.0%	0.4%
Utilities	0.0%	1.9%	-1.9%
Communication	1.7%	3.7%	-2.0%
IT	0.0%	2.3%	-2.3%
Materials	14.9%	17.5%	-2.7%
REIT's	4.0%	7.9%	-3.9%
Energy	0.0%	5.4%	-5.4%
Financials	0.0%	32.8%	-32.8%

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

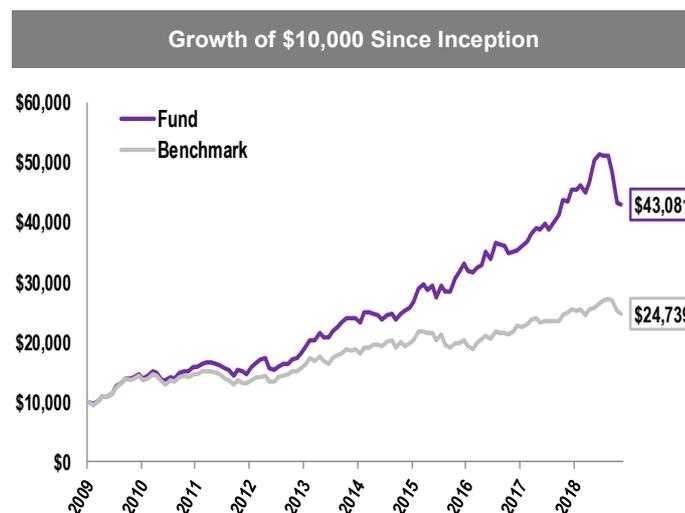
Top Holdings
CSL
Costa Group Holdings
BHP Billiton

### Portfolio characteristics

	Fund	Benchmark*	
Return on Equity	17.4%	12.2%	Premium Quality
Debt/Equity	17.4%	22.9%	
Sales Growth	8.7%	0.4%	Superior Growth
EPS Growth	13.4%	6.7%	
Price/Earnings	19.7x	14.4x	Reasonable Valuation
Dividend Yield	3.1%	5.1%	
Beta	0.98	1	
Active Share	82%	na	Genuinely Active
No. of Stocks	20	296	

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

### Long-term performance



Source: BAEP

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#### Investor Update

In recent months, equities have declined with increased volatility and the Fund has underperformed.

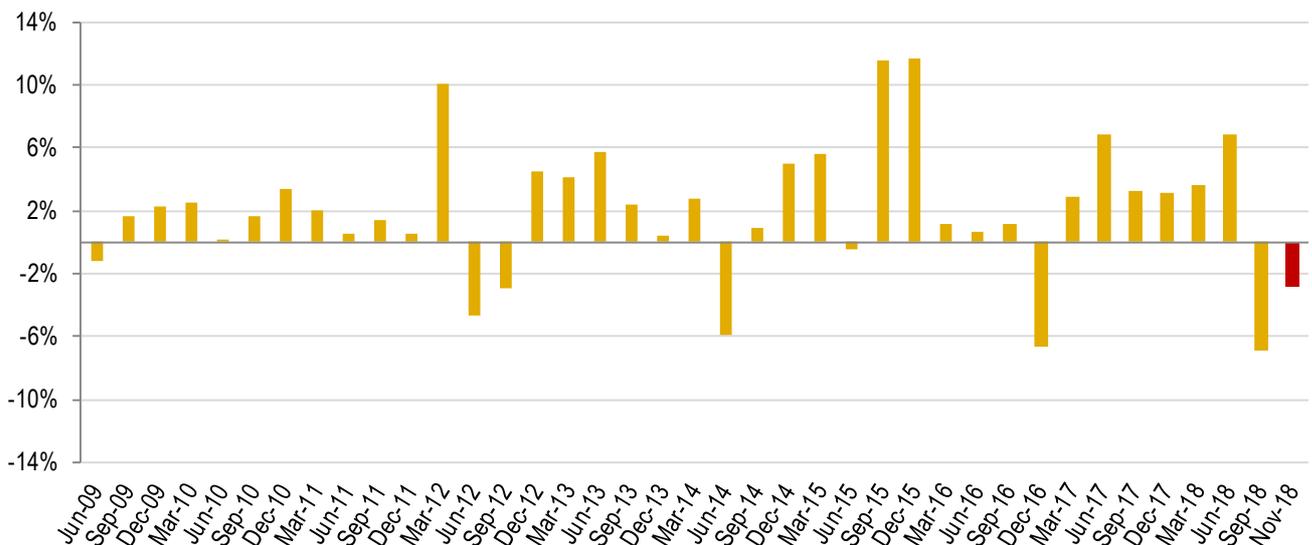
Of course, we caution investors against taking a short term view of investing in equities. Nevertheless, we believe it is helpful to provide some perspective.

On a longer term view, the ups and downs of equities tend to work themselves out and deliver relatively attractive returns. The last five years has seen a 'crash' in the Australian stock market of 20% in 2015/6, and more recently a 'correction' of over 10%. Investors have nevertheless earned a return of 5.8% per annum.

The Fund itself has been able to deliver clients with even better returns, owing to quite strong outperformance. Over the past five years, the Fund has returned 12.5% per annum, which according to the most recent Morningstar survey places it as the number 1 performing fund in the Australian Equity category over that timeframe.

However, whilst the Fund has performed well over time, it has not outperformed all the time. This is best seen in the following graph, which shows the Fund's relative outperformance (or alpha) in each quarter since inception. The last two bars evidence the underperformance in the September quarter and in the December quarter-to-date.

**The Fund's gross quarterly performance versus the benchmark since inception\***



Source: BAEP. \* Performance figures are relative to the benchmark and are gross (ie, before fees and expenses). Net performance can be found on the front page of this report.

Looked at over time, one might observe a cycle in the Fund's performance, with streaks of outperformance and stints of underperformance. In the end, however, the quarter-to-quarter performances have averaged out quite nicely for our clients.

Through all periods, we stay true to our tried and tested investment style. As always, we favour high quality growth stocks, which in our view are the kind that most reliably build shareholder wealth over time. Sometimes, however, these types of stocks can run ahead of themselves, from where their share prices subsequently retrace, often to a point where valuation upside is clear. To the extent their earnings prospects remain largely intact, the lower share prices set a base from which they can then outperform.

With the benefit of hindsight, we would sell at the top and buy back at the lows. Alas, equity markets are never so predictable. Of course, we will trim down or sell out when the valuation or earnings fundamentals justify such a move. However, particularly with 'growth compounders', it can ultimately prove costly to try and get too cute in trading the highs and lows. For example, whenever CSL has historically seemed expensive, it has paid to hold on regardless, with the stock outperforming from every point since. Our approach involves taking a longer term view, and aims to share in the consistent and reliable long term growth in the valuation of companies like CSL.



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True to form, a number of our larger holdings that have delivered strong gains for the Fund in recent years have retraced some of those gains in recent months with quite significant share price declines. Unfortunately, this has brought about the Fund's more recent underperformance. Important examples include CSL, Costa Group, Aristocrat Leisure and Reliance Worldwide. We had trimmed some of these stocks at higher prices earlier this year, and have added to some at the lower prices more recently. In each case, we believe their investment prospects look very favourable from here.

#### Market outlook

It is always difficult to identify the reasons behind the short-term ups and downs of the market.

It appears the initial fall in equity markets in early October owed itself to a spike in bond yields. Interestingly, what has outperformed since then has been the REITs, gold stocks, and in a self-defeating way, sovereign bonds. Investors evidently sought out safety, which reflects risk-off sentiment rather than a view of fundamentals. For example, REITs should ordinarily struggle with higher interest rates.

Since early October, the economic outlook has weakened somewhat. Importantly for markets, this has included the US economy. Locally, there are signs economic conditions in Australia are softer than thought, particularly within the consumer economy. The weakening economic outlook has added to the pressure on bond yields. The US 10-year Government Bond yield has fallen from 3.25% in early October to now around 2.9%.

Equities, however, remain under pressure. Investors have changed their reason for being bearish, from a case of the economic outlook being too hot and therefore portending rising rates, to one of cooling.

There are a lot of other issues to concern investors. There always is. Some of the main ones today include quantitative tapering/tightening, US-Sino trade issues, Brexit, the Royal Commission, and the upcoming Federal election. Tomorrow will bring with it new issues of which to be concerned.

On the other hand, there are a number of reasons to be constructive on the outlook for Australian equities.

Valuations are on a par with historical averages, despite low rates that justify a premium, and most other classes far beyond historic norms. The market's current price-to-earnings multiple is 14.4 times, which compares to the historic average of 14-15 times. Corporate profits are healthy, and this gives support to valuations. Current expectations are that earnings per share will grow in aggregate for the market over the next 12 months by around 7%. That said, there is more than normal earnings risks around the market and so expectations could well come back. In this environment, investors will need to be careful to avoid downgrades and the like.

Sentiment remains mostly negative, which in turn is a big reason why equities trade where they do. At some stage, sentiment will improve and investors will focus back on the fundamentals and relative attraction of equities. In the meantime, investors are being paid for their patience with a dividend yield of currently 5.2% on average (which equates to 6.8% if grossed up for franking credits).

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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 Concentrated Australian Equities Fund typically holds 20-30 stocks across the entire spectrum of the Australian sharemarket. It primarily holds stocks from the S&P/ASX300 Index, although it can invest in stocks beyond this index.

### 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.
- The Fund comprises a concentration of some of BAEP's best stock ideas.
- The Fund has a track record of adding value by outperforming the market over the long term.

### The Fund at a glance

Feature	Fund facts
APIR code	BFL0002AU
Benchmark	S&P/ASX 300 Accumulation 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	30 January 2009
Recommended investment period	Medium to longer term (five years plus)
Buy/sell spread	+/-0.25%
Entry/exit fees	Nil
Management Fee	0.85% p.a. of Net Asset Value of the Fund
Performance Fee	15% of any amount by which the Fund's return is more than 2% 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, or via a range of platforms.

#### Platforms

ANZ (Grow, PortfolioOne)	IOOF (AET, IPS, Pursuit Select, TPS)
AON	Linear
BT (Wrap, Super Wrap, Investment Menus)	Macquarie Wrap (IDPS, Super, Accumulator)
CFS (FirstWrap, IX)	MLC (Navigator, Wrap)
Credit Suisse	Netwealth (Super Service, Wrap Service, IDPS)
Federation	Oasis (Wealthtrac)
Hub24 (Super, IDPS)	Powerwrap (Smartwrap)

### 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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