

Bennelong Avoca Emerging Leaders Fund

Monthly performance update

As at 31 December 2018

At a glance

Feature	Fund fact
APIR code	BFL0008AU
Benchmark	S&P/ASX Small Ordinaries Accumulation Index
Investment objective	3-5% p.a. above benchmark measured over rolling 5-year periods
Portfolio managers	Jeremy Bendeich/John Campbell
Stock number	28
Fund size	\$8.88m
Active stock limit	± 8%
Cash limit	0-10%
Inception date	1 July 2011
Recommended investment period	Long term (five years plus)
Minimum investment	\$20,000
Buy/sell spread	+/-0.30%
Entry/exit fees	Nil
Management fee	1.25% p.a. (including GST net of reduced input tax credits) of Net Asset Value of the Fund
Performance fee	17.5% (including GST net of reduced input tax credits) of any amount by which the Fund's investment return (before fees and expenses) is more than 1.25% p.a. greater than the return generated by the S&P/ASX Small Ordinaries Accumulation Index

Performance in review

The S&P/ASX Small Ordinaries Accum. Index (XSOAI) posted a -4.2% return in December 2018 compared to the S&P/ASX 100 Accumulation Index (XTOAI) at +0.3%. XSOAI underperformed XTOAI by -6.3% over the past year and outperformed by +0.9% p.a. over the past three years.

The top five performers in XSOAI in December were Asaleo Care +39.7%, Graincorp +25.6%, Resolute Mining +21.6%, Oceana Gold +20.6% and Dacian Gold +20.2%. The bottom five performers in XSOAI in December were BWX Limited -52.1%, Altura Mining -30.0%, Sundance Energy -29.4%, Senex Limited -28.6% and Loneer Limited -26.1%.

The Small Resources Accum. Index (XSRAI) fell -5.1% in December vs the Small Industrials Accum. Index (XSIAI) at -3.9%. XSRAI underperformed XSIAI by -9.5% in the year and outperformed XSIAI by +18% p.a. in the three years to 31 December 2018.

Global equities fell sharply in December. The MSCI World ex-Aust (loc) fell -7.4%, S&P 500 -9.0%, NASDAQ -9.4%, FTSE 100 -3.5%, German DAX -6.2%, French CAC-5.2%, the Nikkei -10.5% and the Shanghai Composite -3.6%.

Global bonds rallied strongly in December involving a continual fall in yields, with US 10 years down -33bp, UK 10 years -8bp, German 10 years -7bp, JGBs -9bp and Australian 10 years -27bp.

The year closed with heightened M&A activity. Graincorp rose 29% post the announcement of a take-over offer from Long Term Capital Partners, valuing the firm at AUD \$10.42 per share. Similarly, SIG rose 20% post the announcement from API of their intended merger. Conversely, BWX fell -48% post their announcement of an EBITDA downgrade in the order of 26%.

Performance

Timeframe	Fund return	Benchmark	Value added
1 month	-3.49%	-4.18%	0.69%
3 months	-15.58%	-13.70%	-1.88%
1 year	-14.06%	-8.67%	-5.40%
3 years p.a.	2.97%	7.44%	-4.47%
5 years p.a.	2.66%	5.62%	-2.96%
Since inception* p.a.	3.16%	2.66%	0.50%

Performance figures are net of fees and gross of any earnings tax. 'Value added' calculation does not use rounded performance figures. *Inception date is 1 July 2011.

The portfolio returned -3.49% in December vs -4.18% for XSOAI, an alpha of +0.69%. Since inception, the portfolio has returned +3.16% vs +2.66% for XSOAI, an alpha of +0.50%.

The top five contributors for December were EQT Holdings +67bp, AUB Group +38bp, OZ Mineral +33bp, Fletcher Building +26bp and Star Entertainment Group +24bp.

Bennelong Avoca Emerging Leaders Fund

Monthly performance update

As at 31 December 2018

The top five detractors for December were Seven Group -39bp, Graincorp -29bp, Worleyparsons -28bp, Saracen Mineral Holdings -25bp (not held) and Regis Resources -22bp (not held).

Outlook and strategy

Higher volatility remains a feature in global equity markets, with fundamentals taking a back seat to near term concerns over trade wars and broader geopolitical uncertainty. While the global growth outlook deteriorated in the December quarter, the correction in equities now appears to be pricing in a recessionary period. This may prove overly bearish in the context of strong macro-economic data points from the US and some positive recent developments, including a more dovish tone from the US Federal Reserve around rate hikes; progress in US/China trade negotiations; and an expansion in China's stimulus measures. Each are indicative that policy makers are willing to act rationally in a market where confidence is lacking and seemingly hostage to the next macro data point (or tweet).

With this backdrop, a focus on stock selection and bottom up analysis is even more pertinent. Our portfolio contains high quality companies that exhibit strong fundamentals and valuations that are underpinned by real cash flows. The recent sharp fall in market indices is therefore an opportunity, despite an indiscriminate sell off across most sectors.

One sector that has been caught up in the recent sell down in cyclicals is Mining Services. Within this, Equipment Hire/Sales/Service players who provide the 'picks and shovels' for the mining industry have been hit hard, with SVW and EHL down circa 40% in the December quarter. The sharp move downwards in share prices from October and November continued into December (SVW -11%, EHL -22%). This looks overdone to us, with SVW in particular being a high quality player with leverage to improving mining capex, East Coast infrastructure investment and asset replacement cycles.

On the domestic front, challenging conditions for the consumer are likely to remain a headwind for retail, housing and automotive stocks, with many trading at multi-year lows. We remain underweight these sectors, and while conditions are unlikely to improve near term, several high quality companies within such sectors are approaching levels that may warrant more attention.

While the outlook for many financial services companies becomes less certain post the Royal Commission, a move towards greater independence and lower levels of vertical integration will be a tailwind for players like EQT. The business has a sticky client

base, a reasonably defensive organic growth profile and further optionality around (a) new business wins in the Corporate Trustee Services division post Royal Commission; and (b) additional bolt on acquisitions. EQT remains a core holding and has proven resilient in recent months, hitting a new 12 month high in December.

The heightened volatility in the current environment can be a significant distraction for investors. This can be demonstrated by the fact that the ASX Small Ordinaries Index (XSO) moved by more than 1.0% for 26 days in the December quarter, considerably higher than the three days in the September quarter, four in the June quarter and 14 in the March quarter. In such an environment, confidence in valuations and discipline in the investment process is critical. We continue to focus on businesses with sound fundamentals, strong management teams, robust balance sheets and valuations underpinned by real cash flows and hard assets versus pure 'market' multiples of earnings.

Largest 10 holdings

Stock name	Portfolio weight
EQUITY TRUSTEES LIMITED	6.87%
SEVEN GROUP HOLDINGS LIMITED	6.74%
AUB GROUP LTD	6.51%
BLACKMORES LIMITED	6.38%
NEXTDC LIMITED	6.03%
OZ MINERALS LIMITED	5.77%
GUD HOLDINGS LIMITED	5.38%
AVEO GROUP LIMITED	5.17%
INDEPENDENCE GROUP NL	4.56%
FLETCHER BUILDING	4.06%

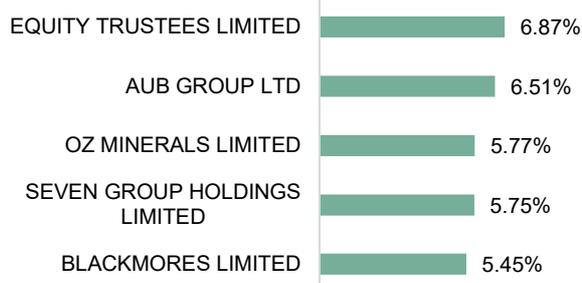
Bennelong Avoca Emerging Leaders Fund

Monthly performance update

As at 31 December 2018

Portfolio analysis

Five largest overweighted stocks



Five largest underweighted stocks



How to invest

The Fund is open to investors directly via the PDS (available at avocaim.com.au) or a range of platforms.

Platforms

BT: Wrap, Super Wrap

Federation

IOOF: AET, IPS, SuperWrap, Pursuit Select, TPS

Netwealth: Super Service, Wrap Service, IDPS

Powerwrap: Smartwrap

Contact details

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

The Fund is managed by Avoca Investment Management, a Bennelong Funds Management boutique.

Disclaimer: This information is issued by Bennelong Funds Management Ltd (ABN 39 111 214 085, AFSL 296806) (BFML) in relation to the Bennelong Avoca Emerging Leaders Fund. The information provided is general information only. It does not constitute financial, tax or legal advice or an offer or solicitation to subscribe for units in any fund of which BFML is the Trustee or Responsible Entity (Bennelong Fund). This information has been prepared without taking account of your objectives, financial situation or needs. Before acting on the information or deciding whether to acquire or hold a product, you should consider the appropriateness of the information based on your own objectives, financial situation or needs or consult a professional adviser. You should also consider the relevant Information Memorandum (IM) and or Product Disclosure Statement (PDS) which is available on the BFML website, bennelongfunds.com, or by phoning 1800 895 388 (AU) or 0800 442 304 (NZ). BFML may receive management and or performance fees from the Bennelong Funds, details of which are also set out in the current IM and or PDS. BFML and the Bennelong Funds, their affiliates and associates accept no liability for any inaccurate, incomplete or omitted information of any kind or any losses caused by using this information. All investments carry risks. There can be no assurance that any Bennelong Fund will achieve its targeted rate of return and no guarantee against loss resulting from an investment in any Bennelong Fund. Past fund performance is not indicative of future performance. Information is current as at the date of this report. Avoca Investment Management (ABN 17 149 651 856) is a Corporate Authorised Representative of BFML.