

May 2014 -0.80%

Last 12 months +4.81%

Key Points: Bennelong Long Short Equity Fund (BLSEM)

- ❑ Research driven, market and sector neutral, "pairs" trading strategy investing primarily in large cap stocks from the ASX/S&P100 Index, with an eleven year track record and annualised net returns of 18.3% .
- ❑ Portfolio Manager Richard Fish has 25 years experience, while Bennelong Funds Management across various funds and provide infrastructure, operational and compliance functions.
- ❑ The Fund's investment history commenced in February 2002 and has an annualised return of 18.26%, including an 11.95% return in 2008 and 20.6% in 2011, both of which were negative years for the ASX200.
- ❑ Consistent returns across the investment history indicates the Fund's ability to provide positive returns in volatile and negative markets and significantly outperform the broader market.



| Key Performance | Bennelong LS | ASX 200 Acc |
|--------------------------------------|--------------|-------------|
| May-14 | -0.80 | 0.68 |
| Annualised Return | 18.26 | 8.42 |
| Latest 3 Months | -5.58 | 2.76 |
| Latest 6 Months | -2.93 | 5.43 |
| Latest 12 Months | 4.81 | 16.45 |
| Latest 24 Months p.a. | 12.09 | 21.33 |
| Latest 36 Months p.a. | 10.99 | 10.24 |
| Latest 60 Months p.a. | 12.99 | 12.39 |
| % Positive Months | 67.57 | 64.19 |
| Best Month | 10.16 | 7.98 |
| Worst Month | -8.98 | -12.61 |
| Largest Drawdown | -12.22 | -47.19 |
| Average +ve Return | 3.27 | 3.03 |
| Average -ve Return | -2.30 | -3.34 |
| Annualised Standard Deviation | 11.92 | 12.90 |
| Downside Deviation (Since Inception) | 6.66 | 9.60 |
| Sharpe Ratio (Since Inception) | 1.09 | 0.33 |
| Sortino Ratio | 1.84 | 0.36 |

Management Company Overview

The Bennelong Long Short Equity Fund (the "Fund") is an Australian Absolute Return fund established in 2002 by Richard Fish. BLSEM staff control 60% of the investment manager with the remainder owned by Bennelong Funds Management (BFM).

Fish has over 25 years experience in Australian equity markets including 10 years with the Australian equities team at National Australia Asset Management, a division of the National Australia Bank. In May 2012 Sam Shepherd joined the firm from Credit Suisse, where he ran the Melbourne institutional equities desk. Shepherd's 20 year experience also covers JP Morgan and Norwich Investment Management. They are supported by experienced investment analyst, Sam Taylor.

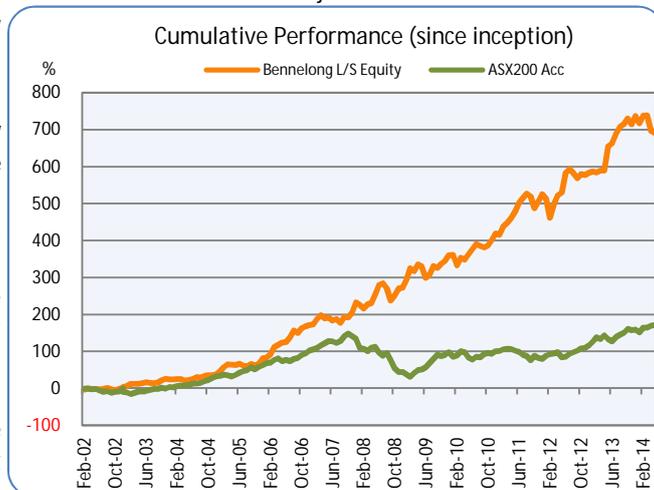
Investment Approach

The Fund only invests in ASX listed stocks, primarily within the top 100 by market capitalisation, using a disciplined "pairs trading" approach while remaining broadly market neutral on a cost basis.

In a typical environment the Fund will hold around 70 stocks comprising 35 pairs. Each pair contains one long and one short position each of which will have been thoroughly researched and are selected from the same market sector. Ideally each stock's position will make a positive return, it is the relative performance of each of the pair that is important.

As a result the Fund can make positive returns when each stock moves in the same direction provided the long position outperforms the short one in relative terms. However, if neither side of the trade is profitable, strict controls are required to ensure losses are limited.

*Statistics above for the ASX are adjusted to the Fund's start date



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Performance - Net of Fees (%)

| Year | Jan | Feb | Mar | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov | Dec | YTD |
|------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|--------|
| 2014 | -2.32 | 2.50 | 0.16 | -4.97 | -0.80 | - | - | - | - | - | - | - | -5.46% |
| 2013 | 0.46 | -0.28 | 0.69 | 0.01 | 9.49 | 1.10 | 3.52 | 2.27 | 0.83 | 1.88 | -1.80 | 2.68 | 22.46% |
| 2012 | -2.04 | -8.43 | 6.35 | 4.22 | 1.19 | 8.47 | 1.57 | -1.61 | -2.00 | 1.69 | -0.41 | 0.89 | 9.20% |
| 2011 | -0.59 | 4.39 | 1.85 | 2.34 | 3.09 | 4.12 | 2.12 | 1.91 | -1.25 | -5.06 | 3.09 | 3.27 | 20.60% |
| 2010 | 0.25 | -6.16 | 4.77 | -1.10 | 3.24 | 2.84 | 2.90 | -0.96 | -0.98 | 1.23 | 2.87 | 3.65 | 12.71% |
| 2009 | 5.69 | 7.88 | -1.72 | 4.26 | -1.24 | -7.16 | 2.24 | 5.61 | -1.14 | 2.65 | 1.71 | 3.57 | 23.64% |
| 2008 | -2.10 | -2.82 | 3.40 | 1.06 | 7.07 | 7.36 | 1.16 | -3.57 | -8.98 | 3.78 | 5.78 | 0.49 | 11.95% |
| 2007 | 0.55 | 5.42 | 3.62 | -3.12 | 0.92 | -2.90 | 1.70 | -3.72 | 5.63 | -0.22 | 4.41 | 9.04 | 22.51% |
| 2006 | 1.24 | 4.76 | 10.16 | 2.90 | 2.59 | 0.95 | 5.57 | 7.67 | -2.62 | 5.22 | 2.01 | 1.35 | 49.91% |
| 2005 | 6.29 | 7.29 | 5.01 | -0.49 | -0.27 | 1.81 | -2.87 | -1.51 | 4.10 | -2.33 | 2.88 | 8.73 | 31.64% |
| 2004 | 0.19 | 0.17 | 0.49 | -3.41 | 0.78 | 2.60 | 4.36 | -0.80 | 3.22 | 1.42 | -0.29 | 1.61 | 10.59% |
| 2003 | 2.34 | 6.21 | -0.44 | 0.61 | 0.82 | 3.00 | -1.93 | -0.99 | 2.01 | 4.85 | 3.78 | -1.27 | 20.33% |
| 2002 | - | -3.31 | 3.12 | -1.05 | -0.31 | -0.92 | 1.17 | 2.64 | -3.45 | -2.61 | 3.86 | 4.59 | 3.36% |

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Fundamental Research & Analysis

The fundamental research and formation of a view on sectors and individual stocks is focused on the top 100 ASX stocks. Information and initial ideas are generated from a range of sources including broker research and ASX notices.

The nucleus of the idea may come as a result of stock specific views, or may be driven from an overall sector view. In addition to Fish and his team's extensive market experience, industry contacts provide the genesis of ideas which help to identify opportunities.

Ideas and potential opportunities are researched in detail using fundamental analysis to determine both the absolute and relative value of stocks which make up the sector in question.

An internal matrix and analysis system has been developed to thoroughly test and analyse stocks within the sector prior to selecting the "pair" that will be used to implement the trade.

The final portfolio construction is subject to strict risk limits and controls, and the portfolio is subject to continuous review and adjustment. On average each pair makes up only 3% of the overall portfolio, with a range of between 2 and 5%, and at the time of the initial investment each pair is broadly dollar neutral.

Investment Risk & Processes

The Fund uses no derivatives and has no currency exposure.

The Fund has no hard stop loss limits, instead relying on the small average position size per stock (1.5%) and per pair (3%) to limit exposure. Where practical pairs are always held within the same sector to limit cross sector risk, and positions can be held for months or years.

In addition to the investment team's undoubted skill and knowledge of their market universe, the Fund's performance is driven by the ability to make positive returns from both the long and short side of the paired stocks in question. However this can have the opposite effect when neither side performs as expected.

The Fund can also gear up to 5 times NAV, and is frequently geared to 4 times NAV (2 times long, plus 2 times short), which is high compared to some of the Fund's peers. Gearing can significantly increase returns on profitable trades, but can also amplify losses on losing positions, and should therefore be used judiciously.

The Fund's historical performance has certainly been enhanced by the use of gearing, and while these gearing levels do create some increased risk, Fish's market knowledge and experience has successfully managed the performance over a sufficient length of time and through significant market volatility, particularly during 2008. As such this supports his view that the gearing levels are suitable and appropriate considering the other risk limits and processes in place.

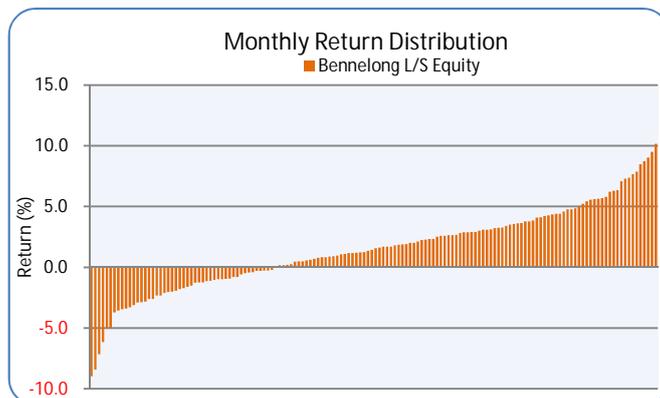
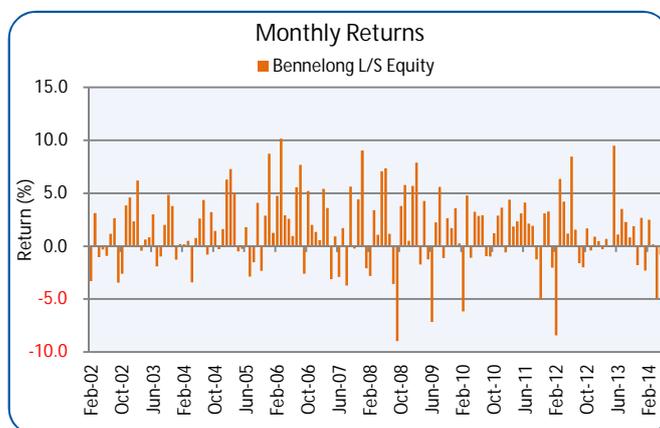
Performance Review

The Fund's strong historical performance indicates an ability to generate high annualised returns whilst preserving capital across the market cycle. Since inception the Fund has produced an annualised return of 18.26% against the broader ASX200 Acc return of 8.42%. These returns have been achieved with slightly lower volatility than the broader market, as shown by the Fund's standard deviation of 11.92% against the ASX200's standard deviation of 12.90%.

The performance of the Fund is highlighted by the strong results during periods of high volatility returning 11.95% in 2008, and 20.60% in 2011. Although highly risk averse, the Fund has experienced five negative months of -5% or above, however to date investors have never experienced more than two consecutive negative months.

Bennelong Long Short Key Terms

| | |
|-----------------------|-------------------------------------|
| Strategy | Equity Market Neutral |
| Domicile | Australia |
| Investor Type | Wholesale only |
| Min. Investment | A\$500,000 |
| Additional Investment | A\$500,000 |
| Management Fee | 1.5% p.a |
| Performance Fee | 20% p.a, with high water mark |
| Hurdle | No |
| Min. Term | No minimum |
| Redemption | Monthly |
| Inception Date | Feb-02 |
| Fund Size | A\$345.5 million |
| Manager's Total FUM | \$6.0 bn (Bennelong Funds Managm't) |
| Status | Soft Closed |





The Key Performance and Risk Statistics demonstrates long term outperformance, having provided an asymmetrical return profile indicated by the ratio of positive to negative months in excess of 2:1, and a performance ratio of actual positive monthly returns of 68%.

The Fund has a low correlation to the ASX200's worst months, frequently providing excellent returns when the market falls sharply. When the market is rising strongly however performance can be mixed. The Fund's largest drawdown of 12.22% occurred in 2008 at the height of the GFC when the market fell over 47%.

Operational & Business Risk

Operational and business risk is considerably reduced as a result of the umbrella of Bennelong Funds Management, which has interests in a variety of fund management offerings and provides the Fund with back office, operational and compliance functions.

The main operational risk concerns "key man" risk to Richard Fish. However investment analysts Taylor and Baker offer significant support by providing core company research and portfolio analysis. Meanwhile Sam Shepherd adds additional depth to the team given his 20 year industry experience and previous knowledge of the Fund's investment strategy and style. In summary the size and structure of the portfolio, and in particular the liquidity of the top 100 stocks in which the Fund normally invests, coupled with the expanded investment team, significantly reduces the operation's reliance on Fish.

Structure, Terms & Compliance

Bennelong Funds Management Ltd (ACN 111 214 085) is an Australian company which was registered with ASIC on 1 October 2004. The company holds AFS Licence number 296806 issued on 8th March, 2006.

The minimum investment is \$500,000 with no lock up or exit restrictions other than a redemption notice of 30 days.

These is a 1.5% per annum management fee, payable monthly, with a 20% annual performance fee subject to a high water mark.

The Fund is structured as an Australian Unit Trust, with no offshore version. The Fund is currently soft closed and as such open to existing investors only.

Service Providers

Custodian: UBS
Prime Broker: UBS
Administrator: TMF Fund Services
Auditors: Deloitte Touche Tohmatsu
Legal: DLA Piper

Commentary and performance data in this Fund Review is updated monthly by Australian Fund Monitors Pty Ltd. For updates email contact@fundmonitors.com

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