

### Key Points: Bennelong Alpha 200 Fund

- ❑ The Bennelong Alpha 200 Fund is a research driven, market and sector neutral, "pairs" trading strategy investing primarily in stocks from within the ASX/S&P200 Index.
- ❑ Since January 2003 the Manager has managed the Bennelong Long Short Fund, using a similar strategy but limited to stocks within the ASX100, but which is now closed to new investors.
- ❑ BLESM's Alpha 200 Fund has been launched to replicate the original strategy but with a wider opportunity for stock selection.
- ❑ Fund Manager Richard Fish has over 25 years market experience, while Bennelong Funds Management, who have over \$5.9 billion in FUM across various funds, provide infrastructure, operational and compliance functions. Portfolio Manager Tim Hall has 15 years experience as specialist investment professional in ex-100 stocks.

### Management Company Overview

The Bennelong Alpha 200 Fund (the "Fund") is an Australian Absolute Return fund established in December 2013 by Richard Fish, who founded Bennelong Long Short Equity Management (BLESM) in 2002. Staff control 60% of the Management Company equity, with 40% held by Bennelong Funds Management (BFM).

Bennelong Funds Management was established in 2008 to oversee a group of boutique fund managers operating under one umbrella across a range of strategies and funds. Currently BFM manages \$5.9bn. and provides back office, compliance and distribution services for the group.

Fish has over 25 years experience in Australian equity markets including ten years with the Australian equities team at National Australia Asset Management, a division of the National Australia Bank. In 2012 Sam Shepherd joined BLESM from Credit Suisse, where he ran the Melbourne institutional equities desk. Shepherd's 20 year experience also covers JP Morgan and Norwich Investment Management. Tim Hall recently joined BLESM as a specialist mid and small-cap portfolio manager to work on the expanded universe of the 200 Alpha Fund. The team is supported by experienced investment analyst, Sam Taylor.

### Investment Approach & Portfolio Construction

The Alpha 200 Fund is broadly modelled on the strategy used for Bennelong's original Equity Long Short Fund which uses a market neutral "pairs trading" approach to invest in Top 100 stocks, and which has been managed by Richard Fish since the inception of BLESM in 2002.

The original fund is now closed to new investors, but has an impressive track record with an annualised return of around 20% since inception, providing positive returns each year, including a return of 11.95% in 2008.

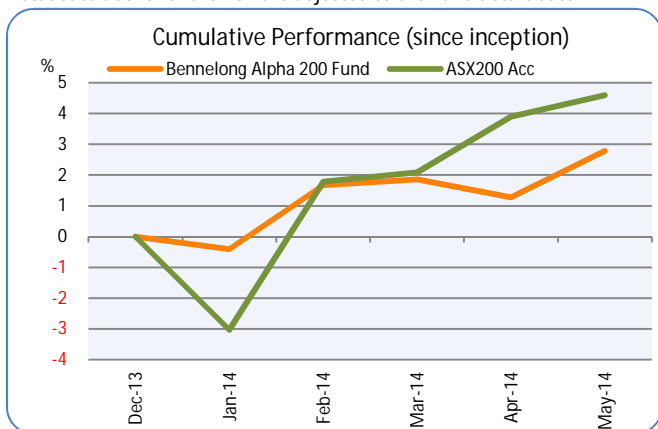
The new Alpha 200 Fund invests in ASX listed stocks, primarily within the top 200 by market capitalisation, using a similar "pairs trading" approach while remaining broadly market neutral on a cost basis.

Typically the Fund will hold 70 - 90 stocks comprising 35 to 45 pairs, although it can hold up to 100 stocks and 50 pairs. Each pair contains one long and one short position each of which is thoroughly researched and, where possible, from the same market sector. The pair positions are dollar neutral at cost, limited in terms of sector exposure, and give the portfolio a target beta of zero over time. Ideally each stock will make a positive return, but it is the relative performance of the pair that is important.



Performance Statistics	200 Alpha	ASX 200 Acc
May-14	1.49	0.68
Annualised Return	6.83	11.41
Latest 3 Months	1.10	2.76
Latest 6 Months	n/a	5.43
Latest 12 Months	n/a	16.45
Latest 24 Months p.a.	n/a	21.33
Latest 36 Months p.a.	n/a	10.24
Latest 60 Months p.a.	n/a	12.39
% Positive Months	60.00	80.00
Best Month	2.09	4.97
Worst Month	-0.57	-3.03
Largest Drawdown	-0.57	-3.03
Average +ve Return	1.26	1.93
Average -ve Return	-0.49	-3.03
Annualised Standard Deviation	3.65	8.93
Downside Deviation (Since Inception)	1.54	5.01
Sharpe Ratio (Since Inception)	1.16	0.98
Sortino Ratio	2.71	1.67

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



Up to a maximum of 40% of the portfolio's gross asset value may be invested in uncorrelated securities and/or uncovered long and/or short positions.

These 'satellite' positions are intended to enhance returns and to balance overall portfolio risk. In this regard, the Manager recognises that it is not always possible to achieve a suitable pair outside the S&P/ASX 100, and a high conviction long or short stock idea might not always have a suitable pair.

The Manager believes this allows the Fund to take full advantage of the strength of their equity research even when a pairs trade is not available.

### Performance - Net of Fees (%)

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2014	-0.41	2.09	0.19	-0.57	1.49	-	-	-	-	-	-	-	2.79%

The stock selection process is orientated to finding a pair as opposed to a single investment and this distinguishes the Fund and its research process. When selecting a pair in which to invest the preference is to enter a long position in a quality company at a reasonable price, as opposed to lower quality company at a low price. This is driven by the fact that over time the success of a pair trade will be determined by each companies' relative ability to record earnings growth.

If neither side of a trade is profitable however, strict controls are required to ensure losses are limited. At a portfolio level the Fund will look to be market neutral at cost with a net exposure of +/- 5% of gross assets, and with the tactical ability to take net exposure to +/- 20% of gross assets.

### Fundamental Research & Analysis

The fundamental research and formation of a view on sectors and individual stocks is focused on the top 200 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 2 to 3% of gross assets, and at the time of the initial investment each pair is broadly dollar neutral.

### Investment Risk & Processes

The Manager concentrates on the strength of their company research and does not use derivatives, and has no foreign currency exposure.

The Fund has no hard stop loss limits, instead relying on the small average position size per stock (1.0 to 1.5%) and per pair (2 to 3%) to limit exposure. Actual weighting is determined by the level of conviction, suitability of the pair, and stock liquidity. Where practical pairs are always held within the same sector to limit cross sector risk, and positions can be held for months or years.

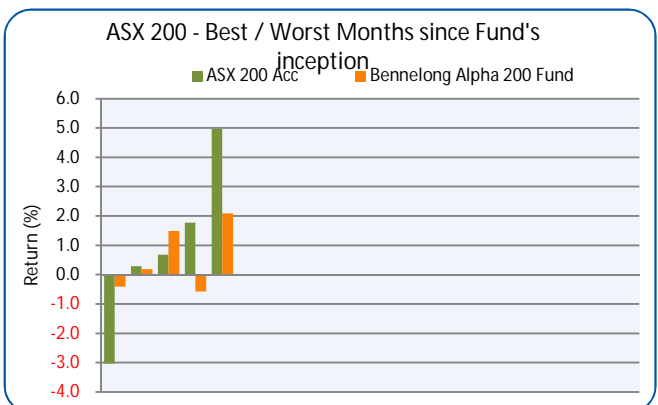
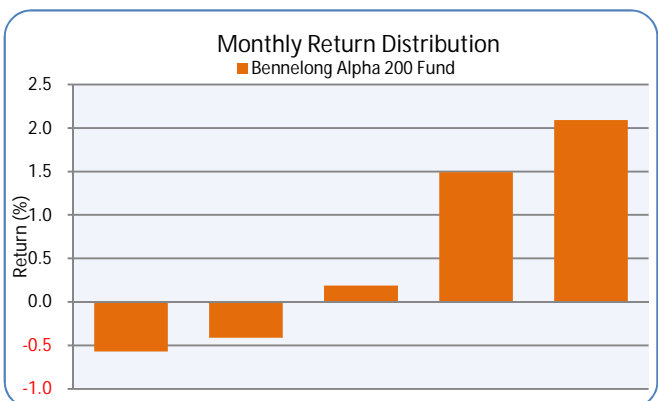
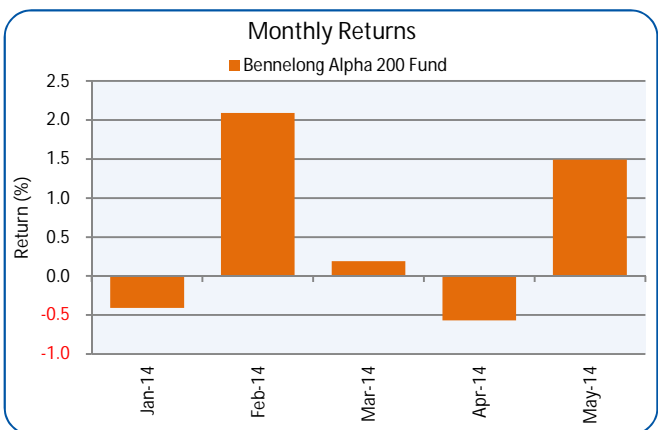
In addition to the investment team's undoubted skill and knowledge of their market universe, the Fund's performance is driven by the ability to make positive returns from both the long and short side of the paired stocks in question. However this can have the opposite effect when neither side performs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

The Fund can also gear up to 3 times NAV, but is expected to average 2.5 times NAV, which is high compared to some of its peers. Gearing can significantly increase returns on profitable trades, but can also amplify losses on losing positions, and should therefore be used judiciously. Sector exposures can range between -10% and 10% while ASX 100 exposures will range between 40 % and 100%

The Fund's performance may be 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 of the Long Short Fund, which has higher levels of gearing, 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 designed to take into account the lower liquidity and higher volatility of midcap shares.

### Bennelong Securities Key Facts

Strategy	Equity Market Neutral
Domicile	Australia
Investor Type	Wholesale only
Min. Investment	A\$500,000
Additional Investment	A\$250,000
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	Jan-14
Fund Size	A\$8.9 million
Manager's Total FUM	\$5.9 bn (BFM)
Status	Open



Although utilising the same research team and investment process, there are differences between the Alpha 200 Fund and the original Bennelong Long Short Equity Fund (BLESF). The primary differences are:

- ❑ It can invest in ASX200 stocks as opposed to ASX100 stocks only;
- ❑ It has lower gearing of around 2.5 times and 3 times, compared to 4.5 times to 5 times for the BLESF;
- ❑ A slightly smaller average pair size of 2-3% and stock position of 1 to 1.5% compared to 3% and 1.5%, as a result of having more pairs;
- ❑ The ability to have up to 40% of the portfolio in non-pair or uncorrelated trades;
- ❑ Sector limits at -10% to 10% of ASX sector weights compared with no limit for the BLESF,
- ❑ A net exposure limit of -5% to 5% at the Fund level with a tactical limit of +/-20%, as compared to no limit and,

### 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 BLESF with back office, operational, compliance and distribution functions.

Previously the main operational risk concerned was "key man" risk to Richard Fish. However 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 addition portfolio manager Tim Hall, as well as investment analyst Sam Taylor offer significant depth and support by providing core company research and portfolio analysis.

In summary the size and structure of the portfolio, and in particular the liquidity of the top 200 stocks in which the Fund invests, coupled with the expanded investment team, significantly reduces the operational 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 for investment by wholesale investors only.

The minimum investment is \$500,000 with a six month lock up restriction and a redemption notice of 58 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 open to wholesale 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](mailto:contact@fundmonitors.com)

### Performance Review

The Bennelong Alpha 200 Fund has a four month track record and therefore an accurate review of its performance record is not possible. Investors may wish to examine the performance record of the Bennelong Long Short Equity Fund which is also managed by Richard Fish, who continues as CIO for the new Fund. The original Fund was launched in January 2002 and its current KPI's are provided below.

Although there are differences between the funds, the track record of the Bennelong Long Short Equity Fund provides an indication of how the strategy can perform in a range of market conditions.

BLESF has recorded an annualised return of 19.75% since January 2002 compared to the ASX200 Accumulation's return over the same time of 10.14%. This has been achieved with lower volatility of 12.06% compared to the Index at 13.15%. The Fund's largest drawdown has been 12.22% over a period which includes the GFC, and which saw the Index record a drawdown of 47.19%.

The BLESF has a Sharpe ratio of 1.18 (0.45 Index) and Sortino ratio of 2.02% against 0.52 for the Index .

Performance Statistics	BLESF 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

The Alpha 200 Fund follows a strategy broadly similar to that of the Long Short Fund whose performance statistics are shown above and Richard Fish, the founder and Portfolio Manager for the Long Short Fund has an oversight role in the Alpha 200 Fund. The differences between the two funds are highlighted on this page. However investors should note that past performance is not a guarantee of future performance, and there are various differences between the implementation of each fund.

### Explanation of Ratios & Terms:

(see [www.fundmonitors.com](http://www.fundmonitors.com) for a full glossary of terms)

#### Sharpe Ratio:

A measure of a fund's "risk-adjusted return", or the return per unit of risk. The higher the ratio, the higher the return the investment strategy has generated for each unit of risk taken. The ratio provides an indication of whether the returns were generated from manager skill or risk taking. In general a Sharpe Ratio of 1 or higher is considered as showing that an investment strategy is rewarding the investor for the risk taken.

It is calculated as follows:  $\text{Excess Return} / \text{Risk}$  where Excess Return is the annualised return since the fund's inception minus the risk free rate of return (i.e. the RBA cash rate) and Risk is the fund's annualised standard deviation (volatility) since inception.

#### Sortino Ratio:

The Sortino ratio is a variation of the Sharpe ratio and only takes into account downward risk on the basis that the fund should not be penalised for upside volatility. The higher the Sortino ratio, the less downside risk the investment strategy has generated.

It is calculated as follows:  $\text{Excess Return} / \text{Downside Risk}$  where Downside Risk is the fund's Annualised Downside Deviation (volatility of negative returns) since inception.

### About Australian Fund Monitors

Australian Fund Monitors (AFM) is a specialist research and information provider, focusing on the Absolute Return and Hedge Fund sector. AFM holds AFS License 324476 to provide general advice to wholesale investors only.

For further details please contact:

Christopher Gosselin

CEO

Australian Fund Monitors Pty Ltd

ACN: 122 226 724

Phone: +61 2 8007 6611

Email: [chris.gosselin@fundmonitors.com](mailto:chris.gosselin@fundmonitors.com)

PO Box R1904, Royal Exchange

NSW 1225 Australia

### Disclaimer & Copyright

The information in this report, including financial returns, strategies, and other content (collectively referred to as "Content") has been prepared and issued by Australian Fund Monitors Pty Limited (A.C.N. 122 226 724, AFSL 324476) otherwise referred to as AFM. The information and content herein is for general information purposes only. Users of this report or any Content of AFM's websites (the "Websites") should not act or make any financial decision without first seeking professional advice. Whilst the Content has been prepared with all reasonable care from sources which we believe are reliable, no responsibility or liability is accepted by AFM for any errors or omissions or misstatements contained herein. Any opinions, forecasts or recommendations reflect information and assumptions at the date of publication and may change without notice. In preparing the Content it is not possible to take into consideration the investment objectives, financial situation or particular needs of any individual user.

#### Disclosure of Interest

AFM has or may have, received fees either directly from a company itself or by a third party, to provide consultancy services or corporate research.

#### Copyright Protection

All Content herein is owned by Australian Fund Monitors Pty Limited (A.C.N. 122 226 724) and is protected by copyright. You must not copy, frame, modify, transmit or distribute the content in full or in part, without seeking the prior written consent of the copyright owner. Users are prohibited from copying, distributing, transmitting, displaying, publishing, selling, licensing, creating derivative works or using any content on the web site for commercial or public purposes Copyright © 2014 by Australian Fund Monitors Pty Limited All rights reserved.

#### No Warranties

AFM does not make any claims, promises, guarantees, representations or warranties regarding the accuracy, completeness or fitness for purpose of the Content. All information and content in this report is provided on an *as is* basis, without warranty of any kind either express or implied. It is the responsibility of the user to evaluate the accuracy, completeness or usefulness of any information, opinion, general advice or other. Furthermore, AFM does not warrant or represent that this content is error free.