30 June 2019 – Factsheet

Centuria LifeGoals

Bennelong Concentrated Australian Equities Fund

The Fund's objective is to grow the value of investments over the long term via a combination of capital growth and income, by investing in a diversified portfolio of primarily Australian shares, providing a total return that exceeds the S&P/ASX 300 Accumulation Index by 4% per annum after fees (measured on a rolling three year basis).

Investment Manager

Bennelong Funds Management Ltd

Investment Strategy

The companies within the portfolio are primarily selected from, but not limited to, the S&P/ASX 300 Index. The Fund may invest in securities expected to be listed on the ASX. Derivative instruments may be used to replicate underlying positions on a temporary basis and hedge market and company specific risks.

Target Allocation

Australian Equities	90-100%
Cash	0-10%

Performance Graph

A $10,000 investment in Centuria LifeGoals Bennelong Concentrated Australian Equities Fund made at inception is worth $10,890 as of 30 June 2019 after all fees and taxes paid within the Investment Option.

Performance Returns

Returns to 30/06/2019	1mth	3mth	6mth	1yr	2yr
Net Return (%)	2.61	5.26	N/A	N/A	N/A

Past performance is not a reliable indicator of future performance. The above net returns are after fees and tax.

Key Features

APIR Code	OVS7561AU
Minimum Initial Investment	$500
Minimum Additional Investment Plan	$100
Minimum Switching Amount	$500
Minimum Balance	$500
Contribution Fee	Nil
Annual Management Fee*	1.23%
Performance Fee**	1.18%
Suggested Timeframe	Minimum 5 years

* Refer to PDS for fee breakdown

** 15% of any performance greater than the S&P/ASX 300 Accumulation index

Fund Rating

The information contained in the Australia Ratings Analytics report and encapsulated in the investment rating is of a general nature only. The report and rating reflect the opinion of Australia Ratings Analytics Pty Limited (AFSL 494552). It does not take into account an individual's objectives, financial situation or needs. Professional advice should be sought before making an investment decision. A fee has been paid by the fund manager for the production of the report and investment rating.

For more information contact Centuria on 1300 50 50 50 or visit lifegoals.centuria.com.au to download the PDS. Simple Flexible Versatile.

Underlying Fund Manager Commentary

The market was reasonably strong over the June quarter, delivering a return of 8.05%. The Fund lagged, with a return of 4.47%. The Fund has outperformed over the longer term, but it has been disappointing over the last year.

Detractors

The largest detractor was Reliance Worldwide.

The company downgraded its earnings guidance in May, and the shares declined about 21% on the day. As Reliance was a large weighting in the portfolio, the share price decline had a material impact on the Fund's overall returns.

There were a number of reasons given for the downgrade. Individually, they were probably insignificant, but in aggregate, they were material. They included:

- Less-than-normal freeze conditions in the US, which tends to crack or break pipes that then need replacement;
- A reduction in sales to US retailers and wholesalers who were selling down inventory levels (notwithstanding good sell-through to end-customers);
- The exit of certain non-core products in the UK business such as thermal interface units, as management looked to focus the business on better growth opportunities;
- Soft demand and increased competition for certain products such as PEXa pipe within its Spanish business; and
- Reduced sales in Australia, owing to slowing residential construction activity.

All up, the downgrade to earnings guidance was in the order of 7%. Arguably, the market's reaction – a 21% decline in the share price - was disproportionate to the extent of the downgrade.

At any rate, it means there was a de-rating of the earnings multiple at which the stock trades. Currently, its shares trade on approximately 16 times next year's earnings. This is on a par with the market average, but in our view it is a far-better-than-average company.

We believe the market is undervaluing the company's quality and growth. Its quality is underpinned by quite dominant brands, particularly in its core niche market of push-to-connect plumbing fittings. Indeed, despite the recent downgrade, we observe strong sell-through of its core products to end-customers. Its growth is underpinned by share gains in the broader plumbing market, which itself enjoys reasonable growth. This growth has been augmented by its large-scale acquisition of John Guest last year, which acquisition remains on track to add significant value to the company. All up, we would expect double-digit growth in earnings over the next few years.

The share price decline was disappointing and unfortunately hurt the Fund's returns. However, at the now lower share price, the shares come with less downside risk and more upside return potential. We believe they look well placed for attractive returns over the medium term.

We have kept the stock as a top-5 holding in the portfolio with a weight of approximately 7% as at the end of June.

Not having any exposure to the strongly performing banks was the next major reason for our fund's relative underperformance over the quarter. The banks account for 23% of the value of the benchmark, and so they are a big driver of its overall returns.

The banks benefited from a number of government-related events during the quarter.

Among the main ones were the Coalition's Federal election win, some prudential loosening from APRA and an RBA rate cut (followed by another in July). These events worked to improve sentiment towards housing, the broader economy and the banks (as well as other domestically cyclical sectors). Recent economic data has shown some improvement, but the question remains whether sentiment will be enough to pull us up while fundamentals are otherwise deteriorating.

On the other hand, we believe earnings headwinds remain for the banking sector.

- Net interest margins remain under pressure, and are hurt by the RBA cuts rates.
- Credit growth remains soft, and is unlikely to recover strongly in the near term. While mortgage credit growth seems to have stabilised at about 3%, business credit continues to soften. Stronger credit growth is needed for appreciable earnings growth.
- There continues to be additional restructuring, IT, regulatory and other costs to absorb in the next few years.
- Bad debts remain at their lows, but could start to trend up, particularly if employment or the general economy starts to suffer.

This paints a picture of earnings challenges. The last two years have seen a decline in earnings per share (EPS), but consensus numbers suggest EPS growth of 2% for each of the next two years. In our view, there is real risk even this could prove optimistic.

Meanwhile, the banks' recent share price gains – which we missed out on – leave valuations towards the top end of their historical range. For example, Commonwealth Bank now trades on almost 17 times next financial year's earnings per share (EPS). Historically, this has been a level at which its shares have proven vulnerable, and was generally reached previously only in more favourable economic times.

We believe the banks are fundamentally good businesses. However, with little (if any) growth, downside earnings risk and vulnerable valuations, we believe the banks do not currently warrant a position in what is a concentrated portfolio. As well, most of the future performance of the banks from here will depend on external factors – be they political, regulatory or economic. In contrast, we typically favour investment in companies that can rely for their success on executing against a value-enhancing strategy. We believe this is a more reliable source of investor returns.

The next largest detractor was Corporate Travel Management There was little news to explain its share price weakness. That said, weakening global economic conditions – and specifically, trade wars, Brexit and Hong Kong protests – have reduced business-related travel.

Last August, the company provided full year guidance that earnings (EBITDA) would be in the range of $144 million to $150 million, representing growth of 15%-20% as against the prior year. In February, the company then guided the market up to the top end of that range. Given the more recent weaker global economic conditions, it is unlikely to have beaten its earnings guidance range. We do believe, however, it will still be able to deliver at the top end.

The shares trade on 20 times next financial year's earnings. We view this as attractive given the likelihood of double-digit earnings growth for the next few years, and the potential for further strong growth thereafter. This longer term growth relies on executing its strategy of building out a much larger corporate travel business globally.

The next largest detractors came from the Consumer Staples sector, with the main one being Costa Group.

Costa Group quite materially downgraded its earnings guidance at its AGM in May. Our ownresearch and analysis had indicated increasing risk of this, and we had sold down the position accordingly. This limited the impact from the fall in Costa's share price of around 30%. It currently remains a small position in the portfolio, with a weighting of less than 1%.

Contributors

We benefited from a large position in Aristocrat Leisure. The company reported a strong half year financial result in May, with growth in revenues and EPS of 30% and 17% respectively. This was above the market's expectations, and the shares rose accordingly.

The company's success relies on the continued popularity of its existing and new-release slot machine and online video games. This is where our research on the company is mostly focused. Fortunately, the company has been investing more than expected in design & development - the gaming industry's equivalent to R&D – and this augurs well for its pipeline of new game releases and longer term growth prospects.

Aristocrat remains a top-3 holding for the Fund.

Market Update

The market has returned about 20% in the first six months of this calendar year. After its march higher, the market now sits near all-time highs hit in late 2007. It seems reasonable to take heed.

Valuations are starting to climb, although they remain only slightly above historical averages. As the RBA pointed out in its recent publication titled A History of Australian Equities, and as illustrated from its graph in the next page, the current price-to-earnings ratio is about at its long-term average.

While the market is valued around its long-term average, there is a lot going on underneath the hood.

There is quite extreme investor favouritism towards safe-haven stocks. These include bond proxies like REITs, utilities and infrastructure stocks; gold stocks; and the 'defensives' such as Woolworths, Telstra and Ramsay Health Care. Mostly, they offer earnings certainty, yield and a place to hide from a weakening economic outlook.

At the other extreme is the favouritism towards the more speculative and sexy disruptive growth stocks. These include the WAAAX stocks and other tech names like Nearmap and Audinate.

With large markets to disrupt and seemingly nothing to stand in their way, these stocks appeal with an offer of long duration growth.

Arguably, valuations for both are becoming questionable, and in any event, reliant on a continuation of the macro picture defined by weak growth, earnings uncertainty and low interest rates.

In this way, the market is largely being driven by macro factors at present. In the end, however, stock prices cannot forever ignore their longer term fundamental drivers of valuations, earnings and growth.

Between the extremes of the safe-havens and disruptive growth are a lot of other really good companies whose shares prices don't have the same upwards momentum and whose valuations appear very reasonable.

Admittedly, these have much more earnings risk and/or far less growth (earnings risk being the risk that companies disappoint in the earnings they deliver versus expectations). Indeed, a number have downgraded their earnings guidance in recent months, particularly domestic cyclicals such as retailers, builders, casinos, media companies and the like. There have been a number of reasons given for these downgrades, but clearly business conditions were becoming worse than what was previously expected. After all, there is a reason why the RBA has been cutting rates.

The market's reaction to these downgrades has been quite brutal. In doing so, investors have been extrapolating shorter term softness into longer term valuations. This reflects a shorter term focus than normal, which often comes about when levels of risk aversion are elevated. The outcome is that there are some quite attractive valuations on high quality and nicely growing companies such as Reliance Worldwide.

On the other hand, one must remain particularly focused on earnings risks at present. At BAEP, this is a key tenet of our investment approach. To the extent that one can get comfort on this front, there are decent returns available from the market with the help of some careful stock selection.

Portfolio Positioning

There are a number of themes within the portfolio at present:

1. A focus on quality

The Fund has a typical orientation towards high quality companies that carry on quite low-risk, predictable and generally defensive businesses. Here we find less downside earnings risks.

To this end, the portfolio has a heavy exposure to healthcare, everyday consumer purchases, and the REITs.

2. Minimal exposure to cyclicals

The Fund has minimal exposure to cyclicals, particularly domestic cyclicals such as those in the local retail, media, housing, construction and banking industries.

In general, these stocks appear far cheaper than the rest of the market, but offer little (if any) growth and significant earnings risks. However, we are open to the idea that these stocks may start to appeal when the economy starts to strengthen and we can gain conviction in their earnings prospects.

3. A global orientation

The Fund has a heavy exposure to global businesses. Most stocks in the portfolio derive the majority of their earnings or growth from offshore operations.

Our positioning highlights that the ASX is not just a play on the Australian economy. It also offers exposure to what Australia excels at on the global stage. This includes in the following industries:

- healthcare (CSL is a portfolio example);
- property development (Goodman Group);
- product design (Aristocrat's gaming machines; or Reliance Worldwide's plumbing fittings);
- education (IDP Education);
- quality produce & brands (Treasury Wine Estates); and of course
- resources (BHP).

4. Selective resources exposure

We have a similar exposure to the resources sector as the benchmark. This exposure is selective and comprises just BHP and Rio Tinto.

Both stocks have done well of late, owing in large part to the rising iron ore price. Of course, commodity prices can just as easily turn down, and we are attuned to this risk. That said, we continue to believe the iron ore market is tighter than commonly perceived, and will remain so while Vale takes longer than expected to re-introduce supply in Brazil.

5. Underweight the top-20

We are materially underweight the top-20 stocks of the market, and particularly the mature blue-chips like Woolworths, Telstra and IAG. Many of these stocks have been bid up on their perceived safety and bond-like attributes, but they appear expensive for the growth on offer.

6. A focus on reliable growth

The Fund has a typical orientation to 'structural' earnings growth. This is growth reliant on quite reliable and enduring reasons such as market share gains, the development of new products or services for sale, or expansion into new geographies. This type of growth tends to be less reliant on quite unpredictable economic or other external factors. Often, it relies simply on the company executing against a well-defined strategy, which as discussed above, offers a more reliable source of growth.

7. Overweight the REITs

The Fund has an atypical overweight position in the REITs. We first initiated a position in select REITs in June last year, and this has been the first time in the Fund's history that it has been overweight the sector.

The Fund's REIT exposure is focused on the industrial and office sub-sectors. Our largest position in the sector is Goodman Group, which is a global developer, fund manager and part-owner of industrial warehouses. It is strategically focused on properties located in built-up metro in-fill areas of major capital cities, and in supporting clients like Amazon and Alibaba in their increasingly critical supply chains. The company offers attractive earnings visibility for the foreseeable future, with a development pipeline valued at approximately $10 billion, including over $4 billion of current work-in-progress. In recent years, Goodman has been able to achieve strong earnings ahead of expectations. This year, it has guided to growth of 9.5%, and we believe there is a high likelihood it will do slightly better.

Disclaimer: this commentary has been directly sourced from the Fund manager quarterly factsheet available on their website.

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