

# Bennelong Australian Equity Partners

## Manager Profile



### Company overview

Bennelong Australian Equity Partners (Bennelong) is a boutique investment manager based in Sydney, Australia, managing over \$2 billion. The company was founded in 2008 by Paul Cuddy and Mark East in partnership with Bennelong Funds Management. Prior to establishing Bennelong, Paul and Mark worked together as co-heads of Australian Equities at a large institutional investment management firm. The broader investment team has six investment professionals with a working history of over seven years.

Bennelong is committed to providing superior investment outcomes for its clients. It believes investing in high quality companies provides the greatest likelihood of delivering strong investor returns. Its investment team is aligned to client outcomes through equity ownership of the business and focuses only on investing. Bennelong's partner, Bennelong Funds Management, provides non-investment services support.

### Investment philosophy and style

Bennelong believes stock prices are ultimately driven by earnings and cash flow performance. Bennelong believes high quality companies have a greater chance of delivering positive earnings surprises, relative to market expectations, and therefore higher relative shareholder returns over time.

Bennelong's core investment style is agnostic about 'value' or 'growth' tilts but has a bias to companies with high quality investment attributes. The investment characteristics of companies that Bennelong seeks to identify are summarised below.

- i) Strong franchises that are well managed
- ii) Undemanding valuations
- iii) Premium profitability
- iv) Superior earnings growth
- v) Strong balance sheets
- vi) Premium capital managers
- vii) Companies that are under-appreciated by the market.

### Investment process

Bennelong's investment process seeks to identify and research quality companies using a fundamental bottom-up active process, supported by proprietary investment tools. There are four formal stages to the investment process, as outlined below.

<b>Stage 1 – Investment universe filter</b>	<p>Bennelong applies a series of simple but important tests that must be satisfied before a stock is considered as part of the investment universe. These tests relate to:</p> <ul style="list-style-type: none"> <li>→ market capitalisation typically above \$250m</li> <li>→ an earnings history</li> <li>→ a reasonable liquidity in the trading of its shares.</li> </ul>
<b>Stage 2 – Idea generation</b>	<p>Investment ideas can be derived from a broad range of sources, which include, but aren't limited to, portfolio managers, analysts and traders. To help expedite the research process, Bennelong utilises a proprietary investment tool which is used to rank stocks according to a range of quality, value and growth factors. These stock rankings can help verify, promote and even challenge ideas.</p>
<b>Stage 3 – Stock analysis</b>	<p>Bennelong's research effort is focused on rating stocks that will satisfy stringent quality hurdles and add value to portfolio performance. Members of the Bennelong team are allocated stocks by sector with each analyst responsible for generating an investment recommendation on stocks in their assigned sectors.</p> <p>Bennelong has a strong focus on earnings and other risks at a stock level. There is an emphasis on understanding market expectations for earnings forecasts and where there may be potential for earnings surprises. Central to Bennelong's research process is a programme of company visits, which includes meetings with management, customers, competitors and suppliers. These contacts are an important part of assessing the quality of management and franchises, as well as enabling the team to make first hand assessments of the quality and magnitude of earnings that may be generated.</p>
<b>Stage 4 – Portfolio construction and maintenance</b>	<p>Bennelong constructs portfolios of stocks that typically have the following attributes — market to slight premium valuation, premium earnings growth, premium return-on-equity, relatively stable earnings variation, conservative balance sheets, strong cash flow, and are subject to broker earnings upgrades. Stocks that enter the portfolio must have positive Bennelong stock ratings and will invariably rank highly on Bennelong's process screens.</p> <p>The portfolio of stocks is subject to constant monitoring and tests to ensure it's consistent with the intended strategy and satisfies Bennelong's stringent quality requirements. Furthermore, stocks that aren't currently held are also subject to constant processing and assessments.</p> <p>Bennelong gives consideration to the macroeconomic and capital market factors and how these may impact the portfolio over time. Stock weightings reflect the portfolio manager and analysts' conviction about the risk/reward profile of the stock, and the appropriate balance between stock, sector, market and economic risks.</p>
<b>Reason we selected Bennelong</b>	<p>Bennelong's multi-faceted risk assessment provides strong diversification with our other Australian shares investment managers, who might look beyond shorter-term valuation signals or movements in shorter-term earnings in favour of longer-term opportunities. Bennelong is also attractive as its investment process provides coverage across the breadth of opportunities in the market both large and small, and if the company is attractive Bennelong will take high conviction positions within its portfolio.</p>



#### What to do next

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