The Portfolio delivered a very weak return of -6.62% for the month. We have previously highlighted that the thematic headwinds we faced in calendar 2016 had abated, allowing stock fundamentals to dominate share price direction. Therefore, it is disappointing to experience a poor month in the midst of company results season. Our hit rate of positive fundamental news during this latest reporting season was mixed, in contrast to the February 2017 season where we experienced a favourable skew to positive fundamental news. In addition, share price moves on the day of announcements have become very significant, leading to the Company experiencing a choppy month in both positive and negative territory. Ultimately, performance finished at its most negative at month's end.

The main driver of the poor return was that two-thirds of pairs generated a negative return. The Financials and Materials sectors accounted for much of the month’s negative return, in equal measure, whilst Healthcare and Telecommunications made positive contributions. There were no clear trends with company results. The Company experienced both upgrades and downgrades in the long and the short portfolio.

One of our best performing pairs over the last three years, long BlueScope Steel / short Sims Metal, was the worst performing pair over the month. BlueScope reported a significant downgrade to first half FY18 guidance, taking your Investment Manager and the market by surprise. Volatility in raw material price (coking coal and iron ore) will detract from steel-making spreads in Australia in the near term. In addition, Australia has experienced steel dumping recently which affects domestic prices for commodity steel. Our assessment is that these issues will not be permanent. As a consequence, and taking into account the share price reaction to the announcement, we are still attracted to the prospects for BlueScope Steel relative to Sims Metal.

Our most positive pair, long Ramsay / short Healthscope / short Primary profited from a poor result and downgraded guidance from Healthscope. Many aspects of Healthscope’s result reflect the lower quality of their hospital portfolio in comparison to Ramsay's.

We have had a relatively busy period of activity in the Company, driven by fundamental opportunities identified. Post month-end we have conducted a thorough review of the Portfolio and as always we continually look for fresh ideas to displace mature positions.

Market Commentary

World share markets paused during August with geopolitical tensions and recent solid gains overshadowing otherwise supportive fundamentals. The mainstream US market index, the S&P500 Index, was flat, while Europe was down -1.1% (MSCI Europe Index) and Japan was also down -1.4% (Nikkei Index). The rest of Asia did better, however, with a gain of +1.0% (MSCI Asia ex Japan Index).
Market Commentary (continued)

The Australian share market had another flat month (S&P/ASX 200 Index -0.1%) and similar to July featured mixed sector performances. Despite a fall in crude oil during August (-6% to US$47 per barrel), the Energy sector was strongest with a rally of +5% due to progress among the Queensland liquified natural gas (LNG) stocks as they reduce costs and indebtedness. Resources stocks also gained (Materials Index +4.1%) with the entire commodity complex (i.e. bulk, industrial and precious metals) rallying strongly over the month. Finally, the risk-off tone of financial markets which fuelled demand for government bonds spilled over to the interest rate sensitive sectors with REITs +0.5% and Utilities +2.1%.

However, not all interest rate sensitive sectors did well, notably the Telecommunications sector which fell -10.8% (now down -28% for the calendar year) as heavyweight Telstra slashed its guidance on future dividends. This fall, alongside a -3% decline in the Financials sector, was enough to leave the overall market steady.

Outlook

Notwithstanding the support to equities being provided by a global improvement in economic fundamentals, we think the more meaningful driver of share market returns remains revisions to monetary policy settings. As shown in the chart below, policy settings remain at the emergency levels set in the fallout of the GFC, which unfolded 10 years ago. Economic activity has since made substantial progress including significant household sector balance sheet de-leveraging in the US and Europe. Australia and Canada, in contrast, have not de-levered, in no small part due to elevated terms of trade, capital flow and population growth. The case for policy normalisation from the world’s foremost monetary authority, the US Federal Reserve, seems compelling.

Company Overview

The Company’s portfolio of investments is managed by Bennelong Long Short Equity Management Pty Ltd, using the same market neutral investment strategy behind the award winning Bennelong Long Short Equity Fund.

Directors

Marc Fisher (Chairman)
Graham Hand
Andrew Reeve-Parker

Company Secretaries

Jeff Phillips
Tharun Kuppanda