Bentley Capital Limited

Tuesday, 31 January 2017

MARKET ANNOUNCEMENT

CBG Fund December 2016 Quarterly Report

The December 2016 Quarterly Report from CBG Asset Management Limited (**CBG**) on the performance of its CBG Australian Equities Fund (Wholesale) (**CBG Fund**) is attached.

As at 31 December 2016, Bentley had ~$3.97 million (29.3% of its net assets) invested in the CBG Fund (30 September 2016: ~$3.99 million (27.7%)).

About the CBG Fund[1]

The CBG Fund is a wholesale fund not open to retail investors. The objective of the fund is to outperform the S&P/ASX 200 Accumulation Index over the medium term. The Investment Manager is "style neutral" and invests in growth stocks, value stocks, stocks with maintainable dividend yields and special situations.

CBG Fund details as at 31 December 2016:

- The equity weighting was 83.6% (30 September 2016: 97.3%);
- 82.1% of the equity portfolio is invested in companies contained within the S&P/ASX 200 Index (30 September 2016: 85.2%) with the balance of 17.9% invested in companies outside of the S&P/ASX 200 Index (30 September 2016: 14.8%); and
- The equity portfolio contained 47 holdings (30 September 2016: 47 holdings).

CBG Australian Equities Fund – Performance

Returns To: 31 December 2016	1mth (%)	3mths (%)	6mths (%)	1yr (%)	2yrs (% p.a.)	3yrs (% p.a.)	Since Inception (% p.a.)
CBG Fund	1.9%	-0.6%	3.0%	-4.6%	2.6%	4.8%	9.2%
ASX/S&P 200 Accumulation Index	4.4%	5.2%	10.6%	11.8%	7.1%	6.6%	8.2%

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1 Based on information provided by CBG Asset Management Limited.

CBG ASSET MANAGEMENT

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THE AUSTRALIAN FUND MANAGER AWARDS

The CBG Australian Equities Fund (Wholesale)

December quarter 2016

25 January 2017

The Directors of Bentley Capital Limited
Level 2, 23 Ventnor Avenue, West Perth
Western Australia 6005

In the December quarter of 2016, the CBG Australian Equities Fund (Wholesale) returned -0.6%, which compared to the S&P/ASX 200 Accumulation Index return of 5.2%. Performance in the quarter was negatively impacted by a rally in bond yields, particularly post the Trump election, which affected our holdings in the transport infrastructure space, given their long-term stable cash flows are viewed as bond-like in nature. The Fund's exposure to this sector was reduced during the quarter, while we note that over the longer term these holdings have made a significant positive contribution to performance.

While the 12 month return for the Fund of -4.6% as shown below is disappointing, we note that CBG is a long term focused, active investor. Over the long term, the Fund has demonstrated an ability to outperform its benchmark, with the 5 year performance to December 2016 in the top quartile of the Fund's category on Morningstar.

International equity markets were positive in the December quarter, with the MSCI World Accumulation Index returning 1.9% (measured in US$). This was assisted by expectations of a pro-business Trump presidency, including increased infrastructure investment, reduced regulation and lower taxes. In the president-elect's victory speech he also downplayed the more controversial aspects of his policy agenda, in particular a push for increased trade protectionism.

Across Australian industry sectors in the quarter, insurance (+16.4%), banks (+13.8%) and utilities (+9.2%) led the gains, while health care (-8.8%), telecommunications (-4.3%) and consumer discretionary (-2.0%) underperformed. Returns across international equity markets in local currencies were: S&P 500 (+3.3%); Shanghai Composite (+3.3%); Nikkei 225 (+16.2%); German DAX (+9.2%); FTSE 100 (+3.5%); NZX 50 (-6.5%).

Net performance history (%)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year
2016	-6.0	-4.7	3.5	0.1	4.1	-4.2	6.8	-1.6	-1.4	-3.5	1.0	1.9	-4.6%
2015	3.7	6.6	-0.3	-2.4	0.2	-6.8	5.4	-5.7	-0.3	5.0	3.4	2.5	10.4%
2014	-2.3	5.8	1.8	0.8	0.2	-1.5	3.6	1.0	-5.1	3.9	-1.2	2.2	9.3%
2013	4.9	5.6	-1.3	5.6	-3.5	-2.6	5.6	1.9	3.7	4.2	-1.1	1.3	26.6%
2012	6.2	3.5	1.6	1.2	-8.6	0.5	3.5	1.6	1.0	4.3	0.8	3.8	20.1%
2011	0.6	3.1	1.3	-1.2	-2.5	-3.7	-0.9	-3.7	-11.2	7.8	-3.6	-3.6	-17.3%
2010	-5.7	1.6	7.6	-0.4	-11.4	-3.2	7.5	-1.3	7.4	1.9	-1.0	5.2	6.4%
2009	-3.1	-0.7	4.9	2.8	2.2	2.9	7.3	6.7	7.0	0.4	1.7	4.2	42.3%
2008	-12.3	0.2	-5.4	4.1	0.8	-7.8	-5.7	1.7	-16.3	-17.7	-5.0	2.7	-48.2%
2007	3.6	0.2	3.9	4.5	2.7	2.3	-0.2	-3.2	8.7	5.0	-3.7	-3.6	21.4%
2006	1.2	3.2	3.9	4.4	-2.9	0.0	-0.3	2.9	4.8	6.1	3.3	4.6	35.5%
2005	0.8	0.7	-0.9	-3.8	2.5	1.9	5.5	2.1	4.7	-3.4	2.2	2.2	15.1%
2004	0.9	2.3	2.7	-2.8	0.6	2.6	2.1	2.3	3.9	6.3	5.4	1.5	31.2%
2003	-2.2	-6.9	0.4	4.6	-1.8	4.0	7.5	11.2	6.7	6.9	-1.4	5.4	38.3%
2002				0.7	1.2	-2.2	-4.0	2.6	-4.4	1.1	-0.6	-0.9	-6.5%

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The CBG Australian Equities Fund (Wholesale)

Fund commentary

The Fund's holdings in the banks sector contributed positively to performance in the December quarter, with CBA (11.6% weight) returning 13.8%, Westpac (9.3% weight) up 13.7%, National Australia Bank (4.4% weight) up 13.6% and ANZ (4.1% weight) up 13.0%. The sector rallied on firming expectations that there are no imminent capital raisings coming for the sector. In a November speech, APRA Chairman Wayne Bayres confirmed that the goal of the Basel Committee is for revisions to the capital framework to result in no significant increase in capital requirements overall. Moreover, Bayres indicated that 2017 will be a year of consultation, with new standards to take effect at least a year after that.

The major banks, with the exception of CBA, also reported their 2016 financial year results during the quarter, which relieved market concerns in regards to the bad debt outlook. WBC management had guided to a lower second half bad debt charge with their first half result and they delivered on that guidance. With borrowing costs at a low level and business and personal credit growth having expanded at a very modest pace over the past 9 years, there has not been a build-up of credit risk, notwithstanding some pockets of weakness. The sector also benefited from reducing expectations of further cuts to the official cash rate, which is positive for the net interest margin outlook of the sector.

Duet Group (2.3% weight) also contributed positively, returning 12.8% after receiving a non-binding proposal from Cheung Kong Infrastructure (CKI) to acquire the company for $3.00 per share in cash and making an announcement regarding the planned construction of a gas storage facility in Western Australia. In January 2017, DUE announced that the company has entered into a scheme implementation agreement with CKI to acquire company for $3.03 per share. The key remaining hurdle for the deal is approval by the Foreign Investment Review Board. DUE has been a core holding since 2012, having been first purchased at $1.97.

The Fund's holdings in the transport infrastructure space negatively impacted performance in the quarter, with Auckland International Airport (AIA) returning -12.0%, Sydney Airport (SYD) down -11.8% and Transurban (TCL) down -7.0%. These companies have continued to report strong operational performances, but were impacted by a sharp rise in bond yields which negatively affected valuations. The Fund exited the holdings in AIA and SYD during the quarter on valuation grounds, while TCL remains a core holding at a 3.4% portfolio weight.

Sirtex (SRX, 0.8% weight) was also a negative contributor, returning -55.1% in the quarter after the company guided to December half dose sales growth of only 4-6%, compared to a consensus expectation of 15%. Given cost growth in line with budgeted double digit revenue growth, CBG now expects financial year 2017 earnings for SRX to decline by 9%. The softer sales growth in the period reflected increased competition from both a new oral drug, Lonsurf, and direct competitor BTG. Salvage is after patients have stopped responding to standard therapies (e.g. chemotherapy). However, CBG notes that the abovementioned competition relates only to the salvage treatment space. SRX has three clinical trials scheduled to report in the six months to June 2017, which aim to demonstrate efficacy in earlier stage treatment. If successful, these trials will increase SRX's target market by approximately 10-fold. With the stock now trading on only a 17x FY17 PE, the fund considers that the risk reward equation supports continuing to hold a modest position (currently 0.8%) in SRX.

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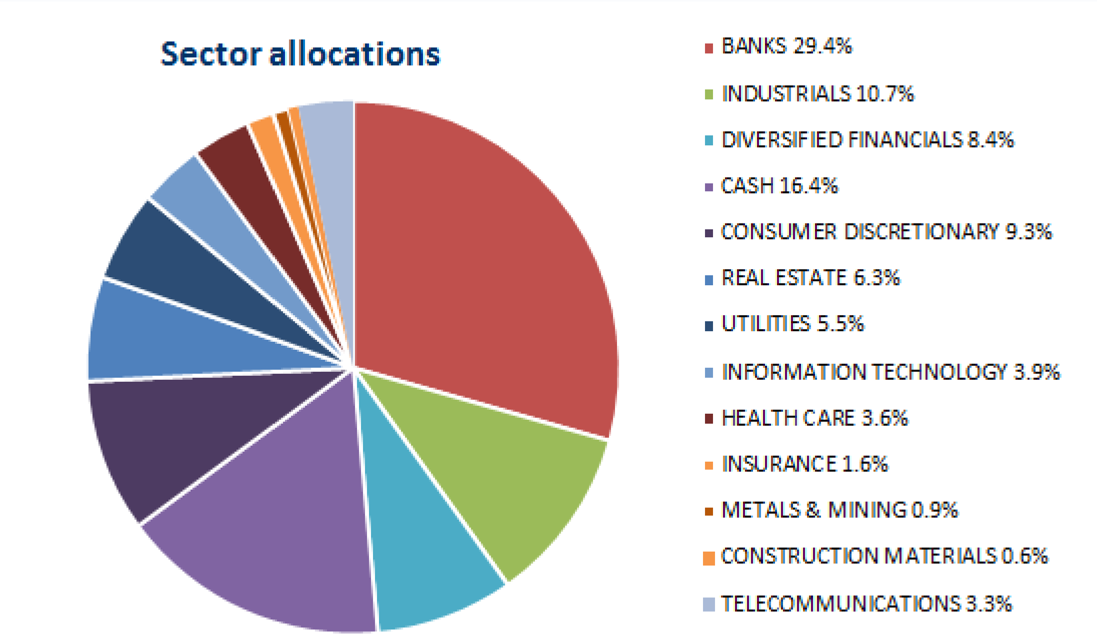
Top 15 Holdings as at 31 December 2016

	ASX Code	Stock Name	Fund weight	FY17 yield
1	CBA	COMMONWEALTH BANK OF AUSTRALIA	11.6%	5.2%
2	WBC	WESTPAC BANKING CORPORATION	9.3%	5.8%
3	NAB	NATIONAL AUSTRALIA BANK LIMITED	4.5%	5.9%
4	HGG	HENDERSON GROUP	4.4%	4.5%
5	ANZ	ANZ BANKING GROUP LIMITED	4.1%	5.3%
6	MQA	MACQUARIE ATLAS ROADS GROUP	3.7%	4.0%
7	LLC	LENDLEASE GROUP	3.6%	4.5%
8	TCL	TRANSURBAN GROUP	3.4%	4.9%
9	APA	APA GROUP	2.9%	5.1%
10	MFG	MAGELLAN FINANCIAL GROUP	2.8%	3.4%
11	SDA	SPEEDCAST INTERNATIONAL LIMITED	2.6%	4.2%
12	DUE	DUET GROUP	2.3%	6.8%
13	EGH	EUREKA GROUP HOLDINGS LIMITED	2.2%	-
14	AHG	AUTOMOTIVE HOLDINGS GROUP	2.2%	6.2%
15	REA	REA GROUP LIMITED	2.0%	1.9%
Total			61.5%	4.8%



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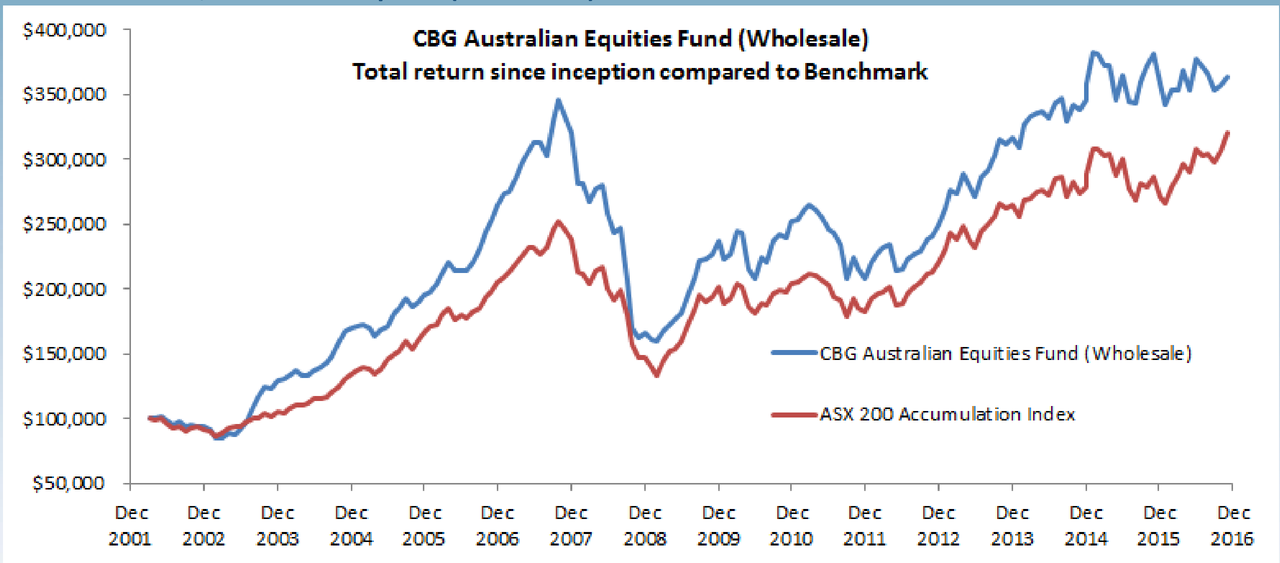
The CBG Australian Equities Fund (Wholesale)

Growth of $100,000 since inception (net of fees)



Inception date: 9 April 2002

Market commentary

Expectations for improved global growth have pushed stock markets higher in 2016. This has been despite a sharp rise in bond yields in the fourth quarter, as the bond move has reflected increased growth and inflation expectations. Improved global growth is expected to be driven by the US, including from fiscal stimulus, and from emerging markets, in particular Brazil and Russia.

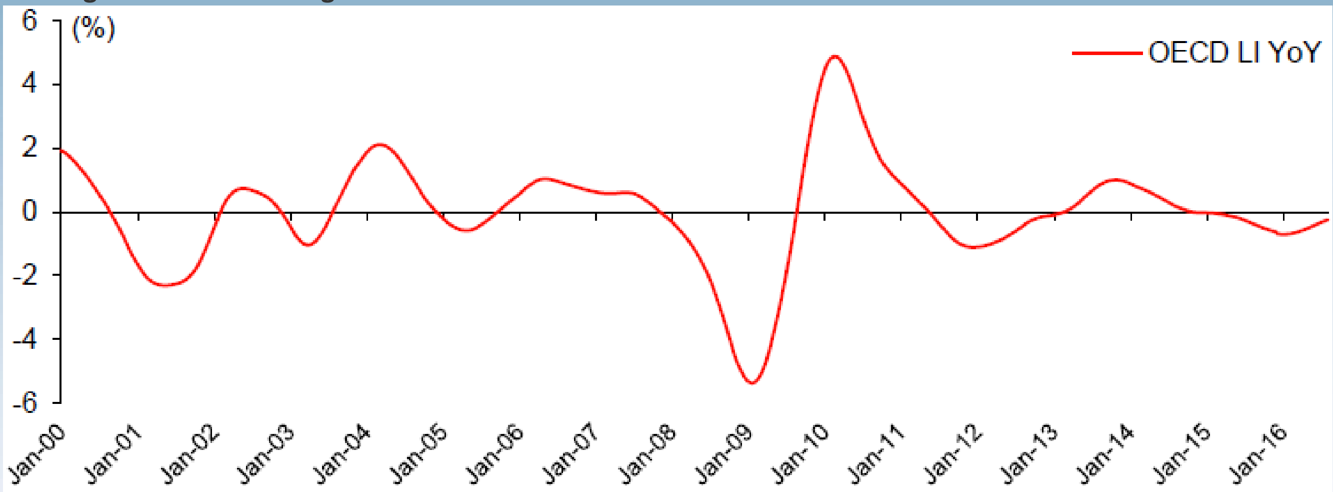
Despite the recent recovery in the US housing market, the housing investment share of GDP remains around previous cyclical lows, providing scope for a multi-year improvement.
Europe is beginning to follow the US in delivering employment growth, while overall economic growth is expected to remain tepid. China's growth is expected to continue to reduce gradually, at a still strong 6.5% in 2017[1].

[1] Source: World Bank

The CBG Australian Equities Fund (Wholesale)

The chart below combines leading indicators for aggregate GDP growth in OECD economies, with the indicator showing an upswing since March 2016.

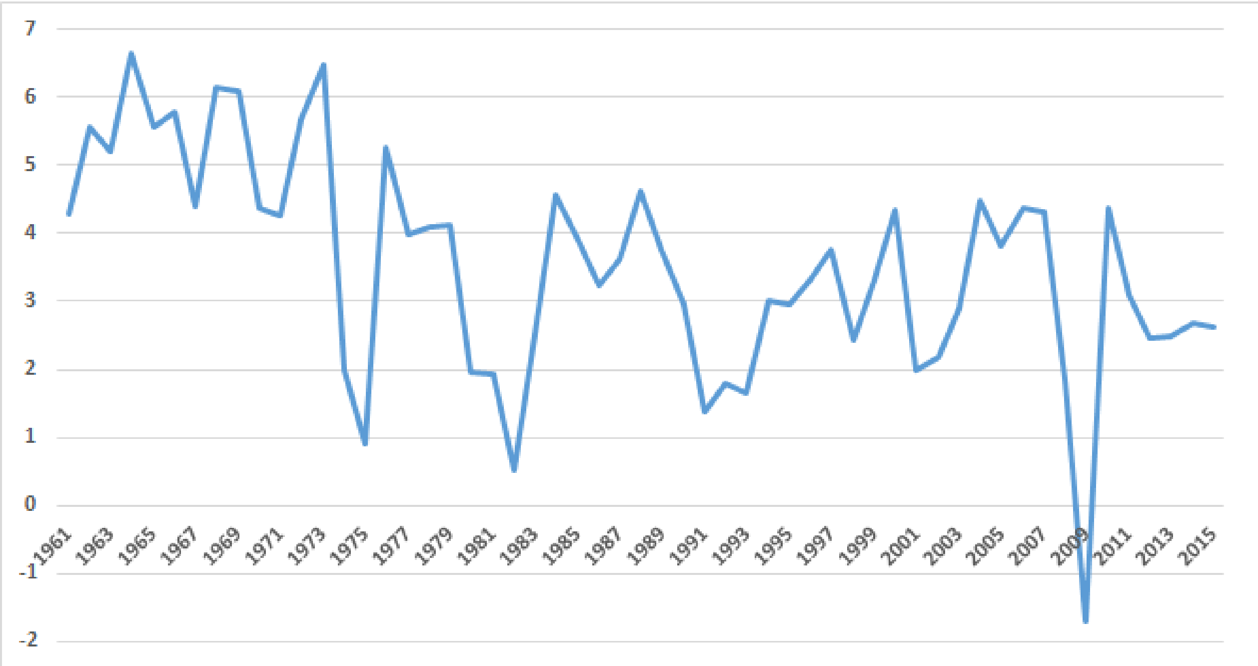
Leading indicator for GDP growth in OECD economies



Source: Macquarie

Expectations for improved global growth are also a reflection of the fact that we are coming from the longest stretch of sub-par global growth in 50 years. Using a simple average of individual years, global growth since 2007 has averaged 2.2% per annum. This compares to the previous 10 years' average of 3.4%, 20 years' average of 3.2% and 30 years average of 3.1%. This is illustrated in the chart below, noting that the rebound year in 2010 followed negative growth in 2009, with growth having remained in a subdued trend since the end of 2007.

World real GDP growth (annual %)



Source: World Bank

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Team changes

CBG would like to farewell and thank Rob Gregory, who departed at the end of 2016 after 9 years as part of the investment team. Rob was a Portfolio Manager and was responsible for the resources, consumer and information technology sectors. We are pleased to announce the appointment of highly experienced Australian equities Portfolio Manager Scott Maddock, who will take over Rob's sectors. Scott brings over 30 years of Australian equities investment experience, including most recently as Portfolio Manager at Macquarie Private Portfolio Management, which won Money Management/Lonsec's SMA Portfolio of the Year Award for 2016. Scott was responsible for over $600m in FUM at Macquarie and we are excited about the contribution he will make to the CBG team.

Yours sincerely,

Ronni Chalmers
Investment Director

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