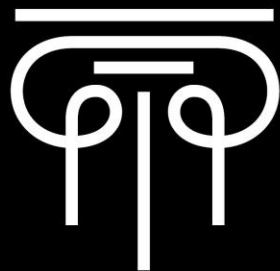

February 2025

Mid caps can fill the Aussie large cap growth gap.

Ron Sargeant

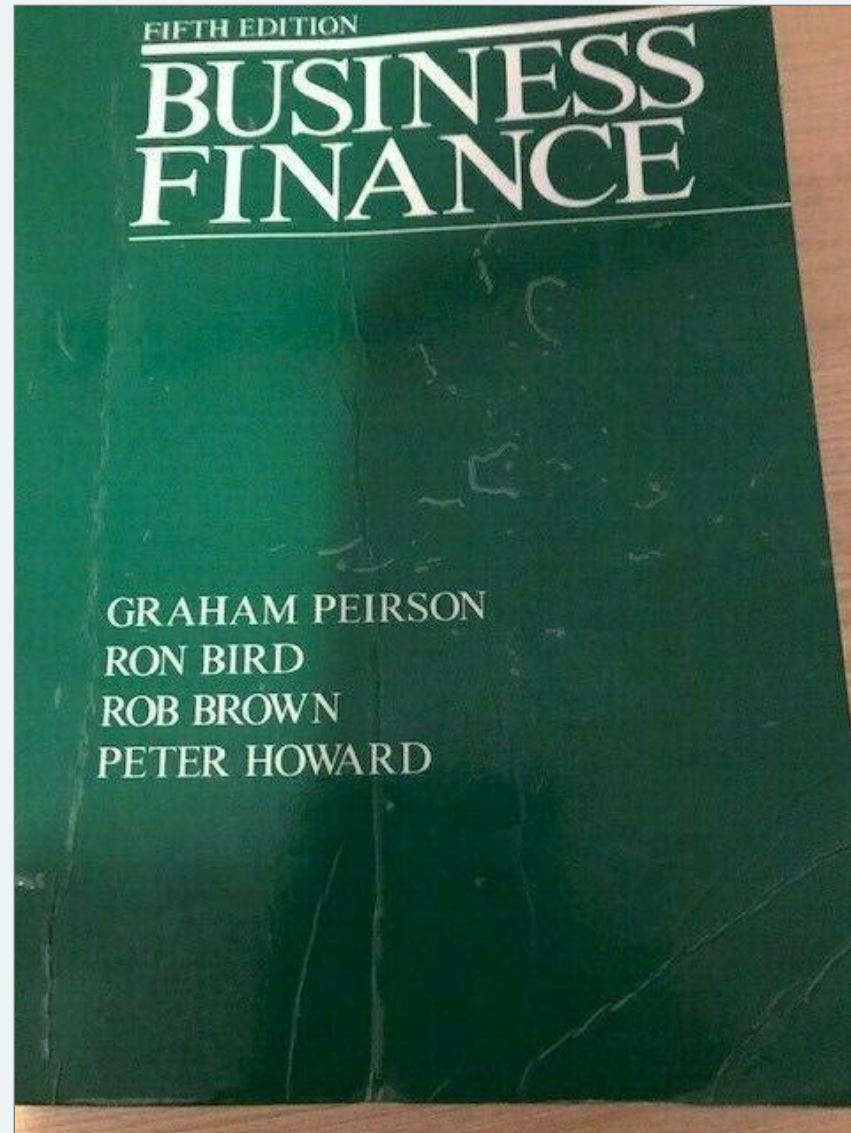
Senior Analyst & Portfolio Specialist, Bennelong
Australian Equity Partners (Sydney)



Portfolio
Construction
Forum

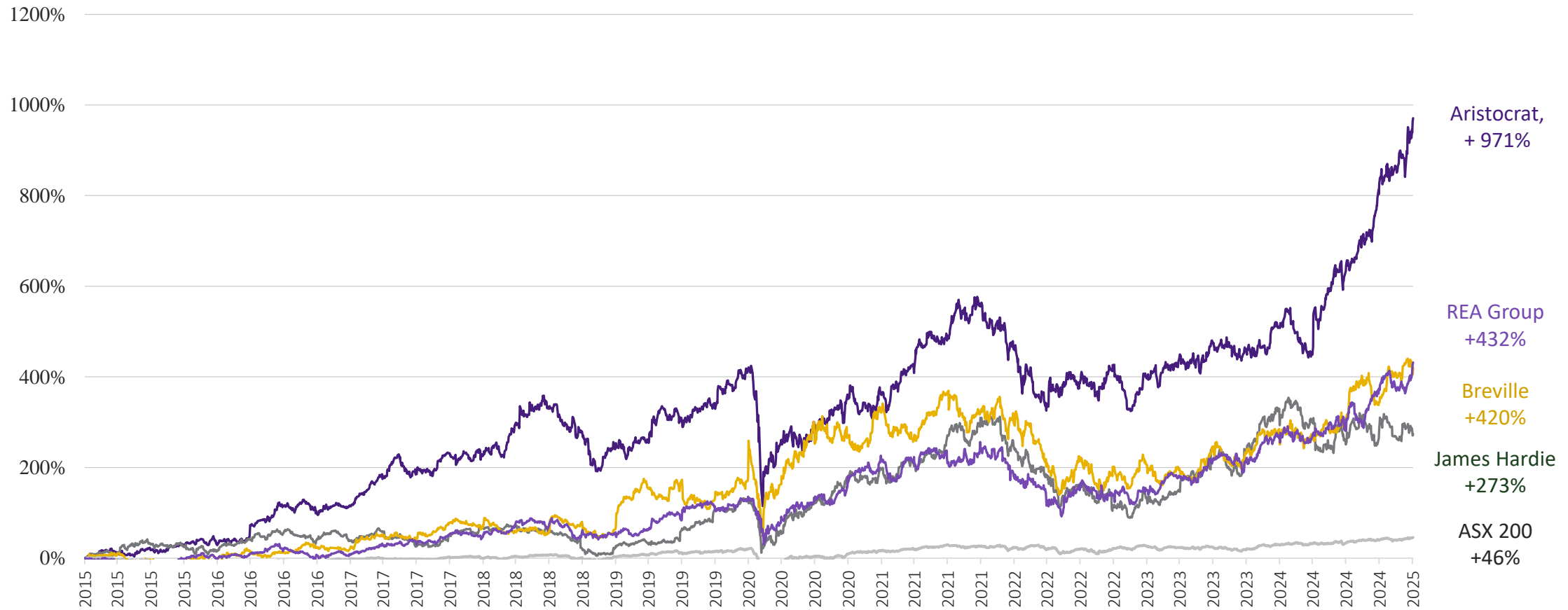
Mid caps can fill the Aussie large cap growth gap





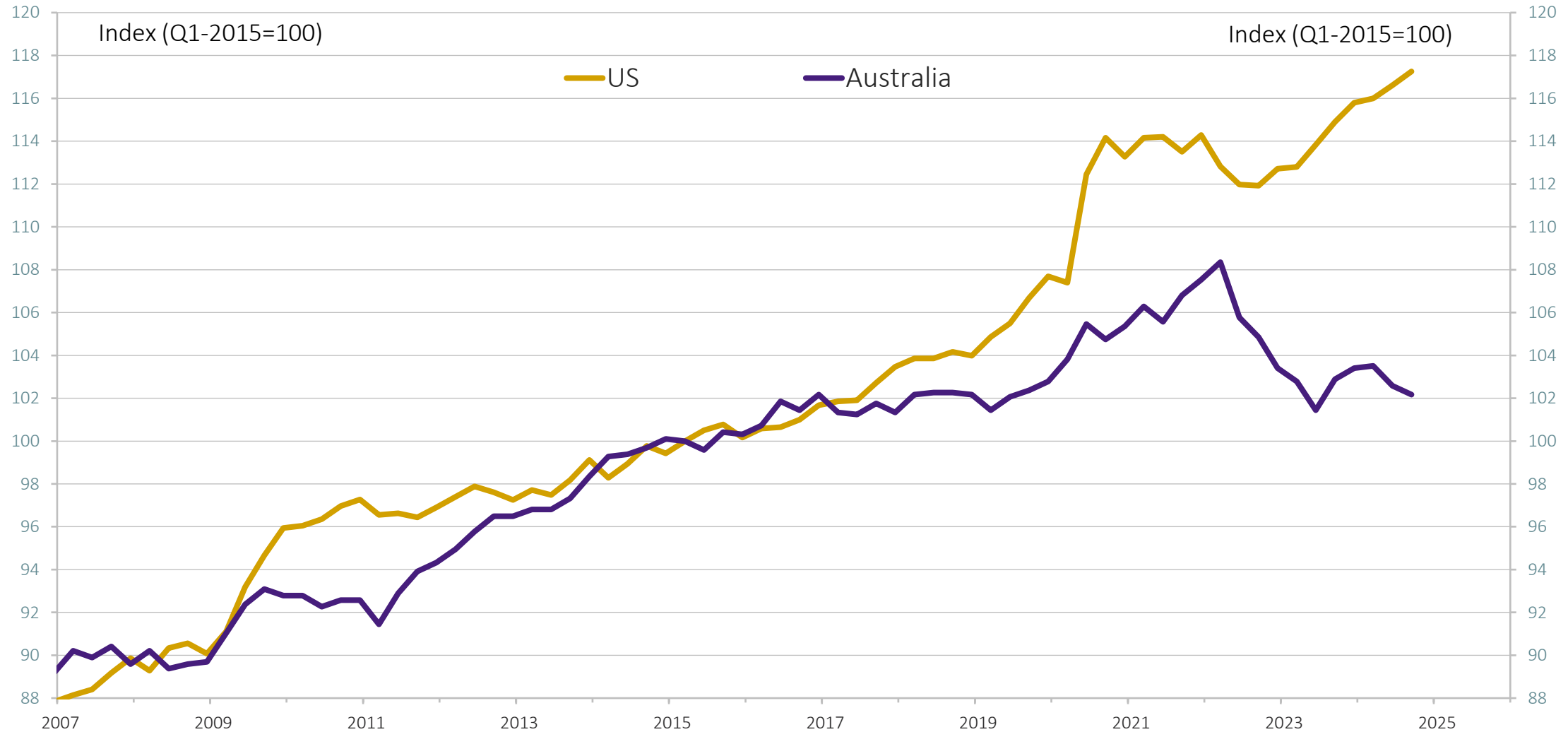
Superior growth drives superior returns... It's all about compound earnings growth

10 year change in price => selected stocks vs ASX 200



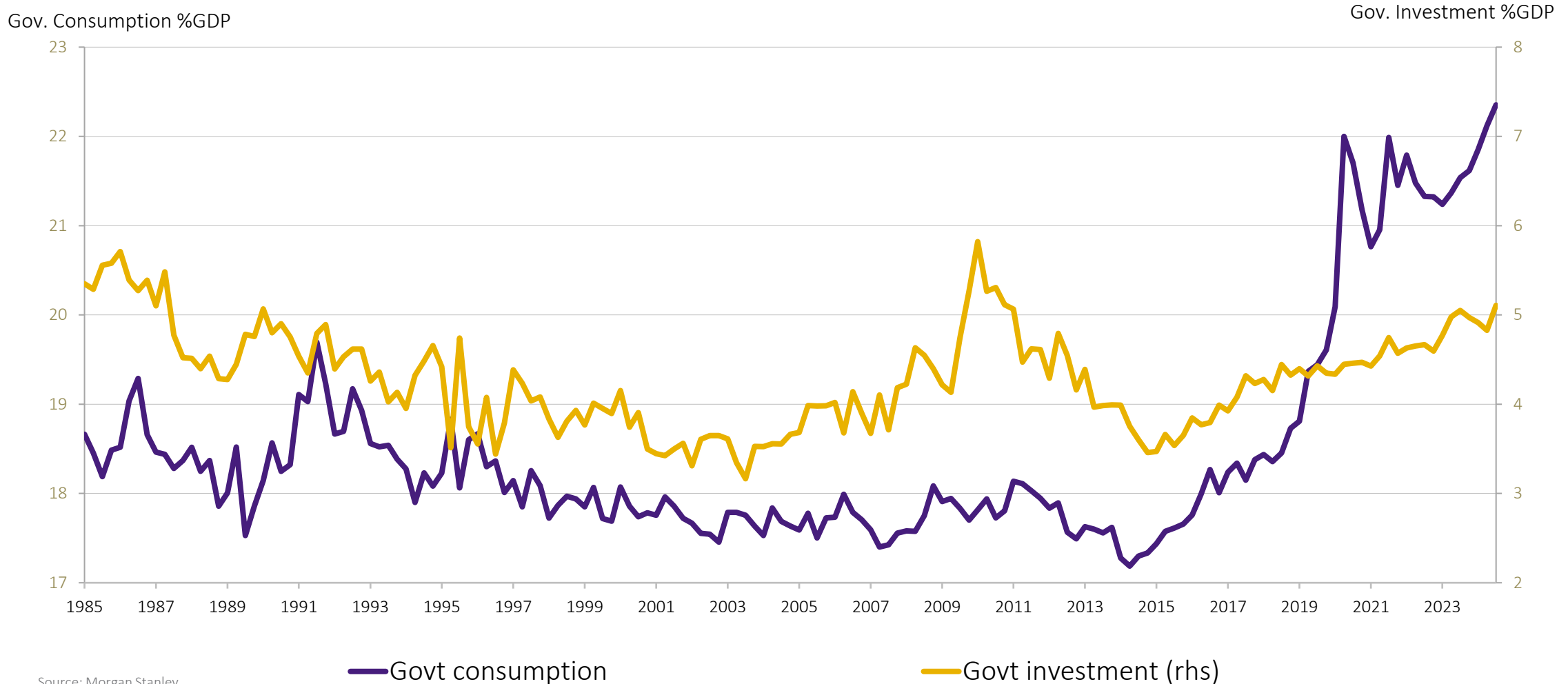
Source: Factset, BAEP

Labour productivity, US and Australia



Source: UBS

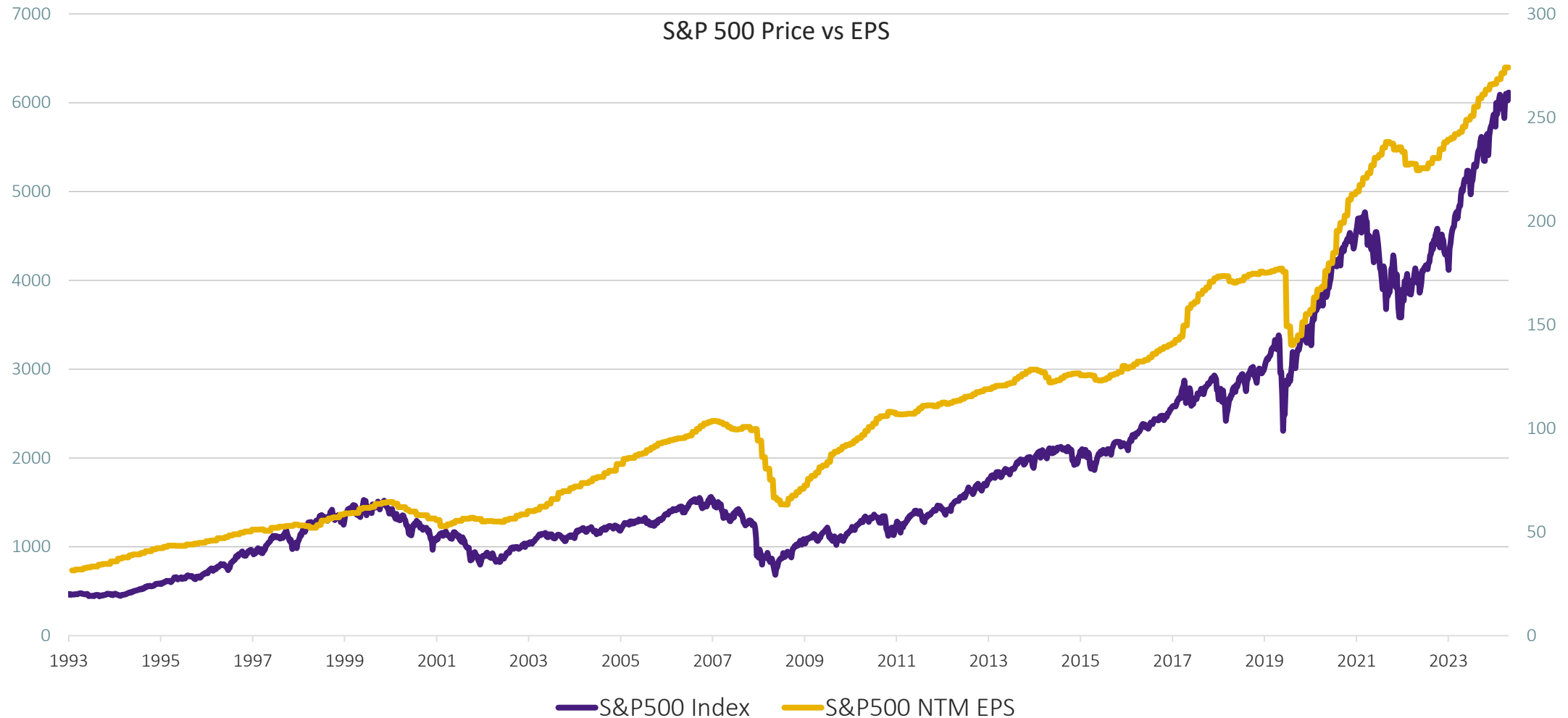
Government spending has driven the economic growth in Australia over the past year



Source: Morgan Stanley

First principles

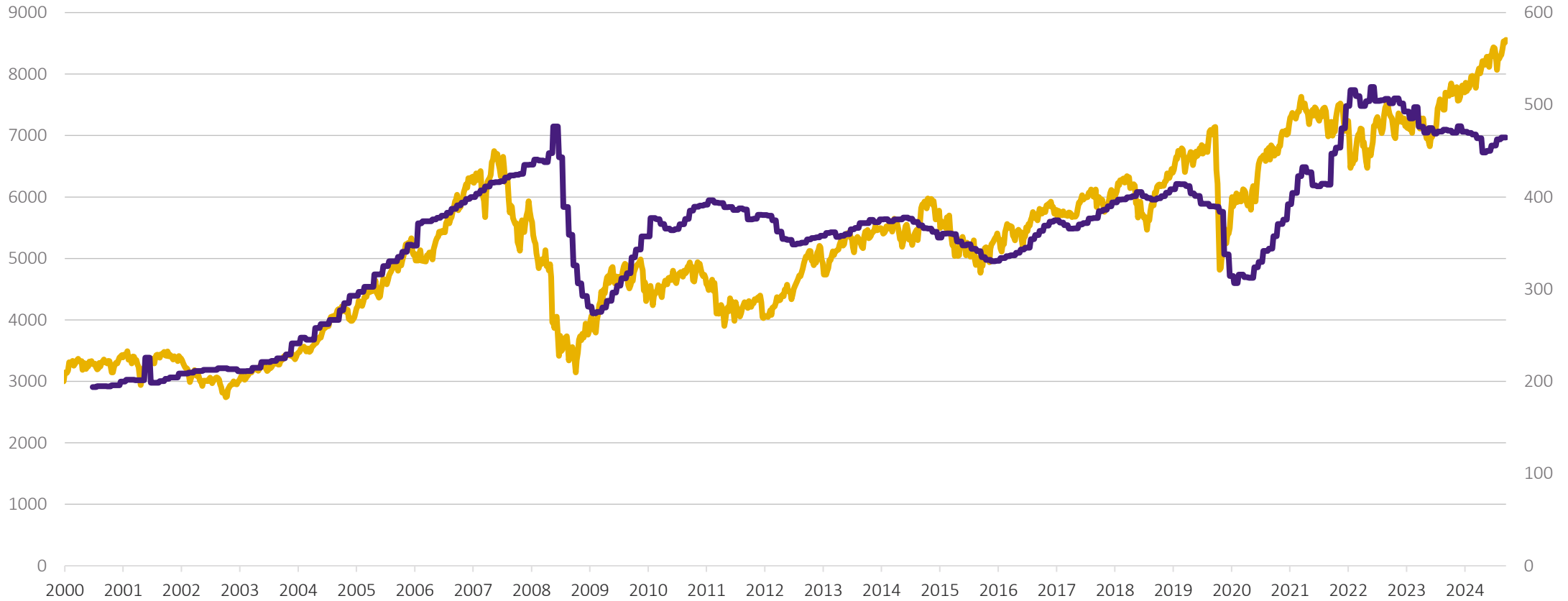
Over time share prices follow earnings...



Source: Factset, Morgan Stanley, BAEP

If share prices follow earnings then... superior earnings growth drives superior returns

ASX 200 Price vs EPS



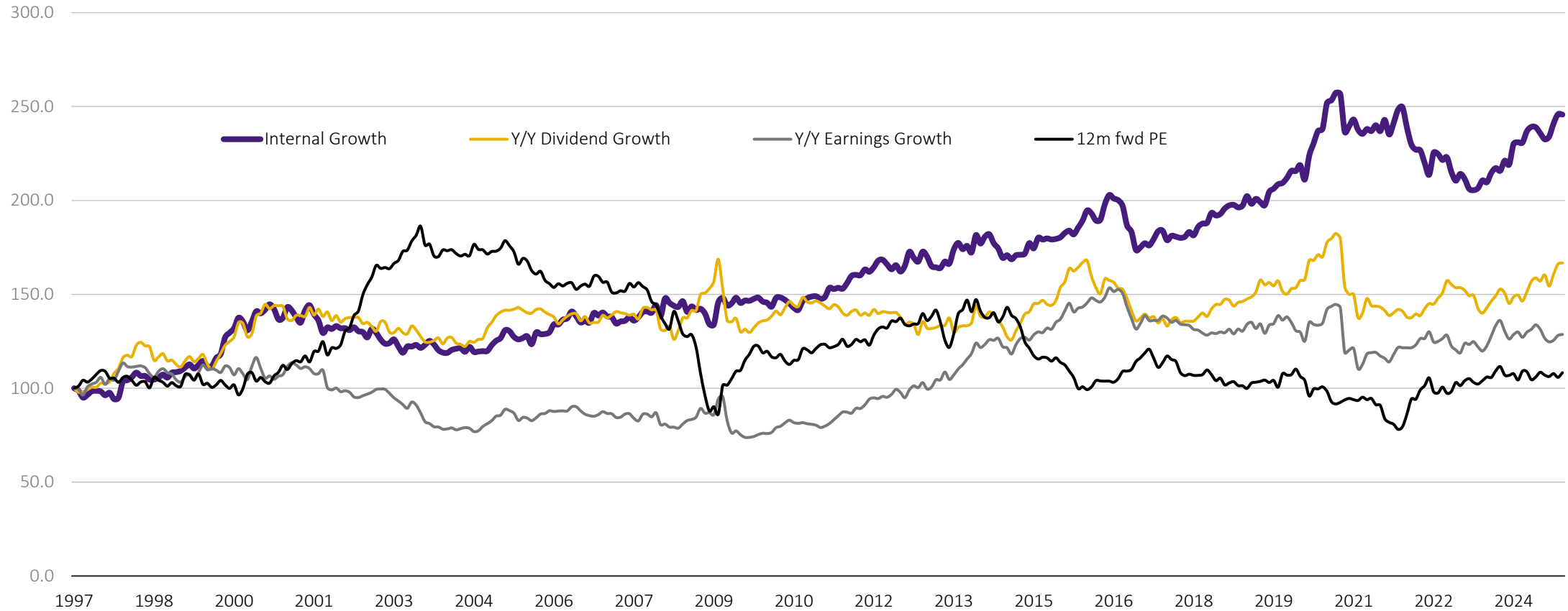
Source: Factset, BAEP

— ASX 200 Index

— ASX 200 NTM EPS

Internally generated growth leads to the strongest returns

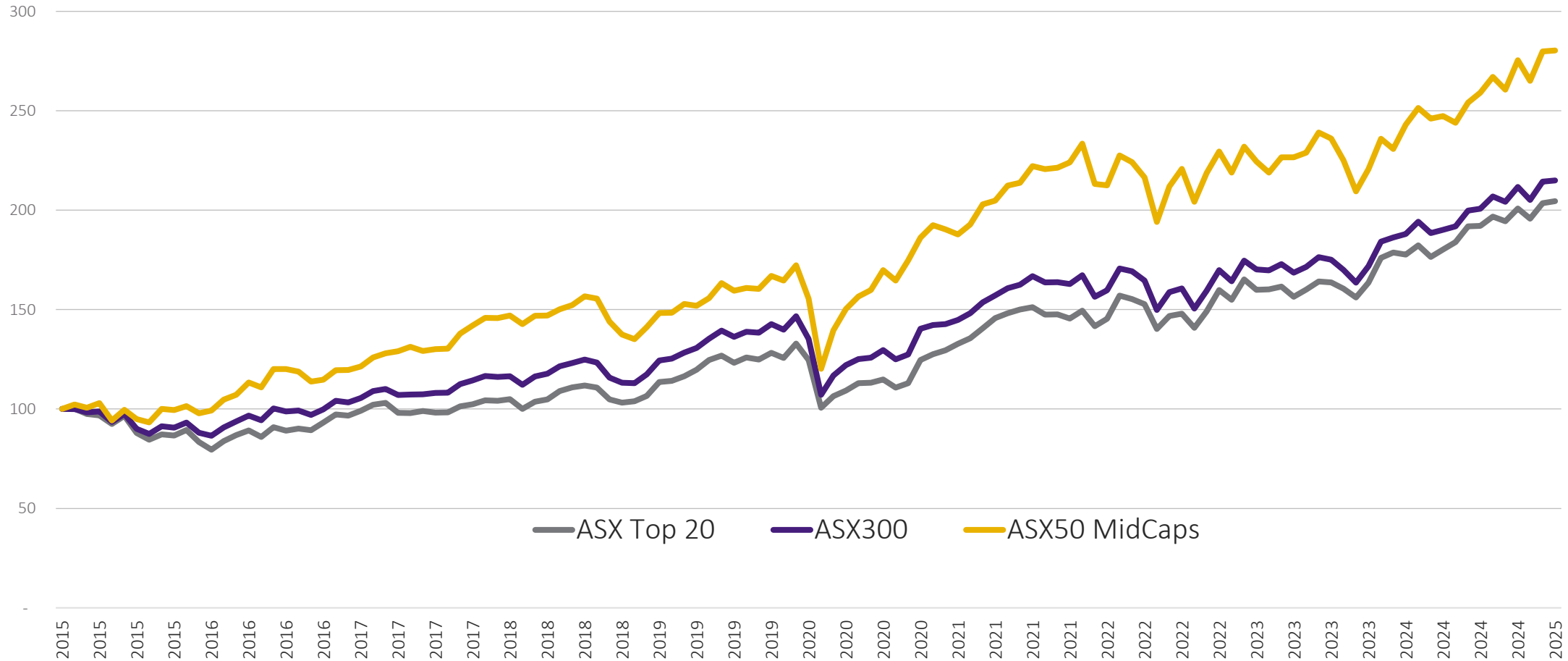
Key growth factors
Cumulative monthly long/short total % returns



Source: Morgan Stanley

Performance is generally found outside the domestic mega-caps

Total Return (%)



Source: IRESS, BAEP

The importance of innovation and reinvestment

Breville®



- Marketing/R&D/Tech investment
 - FY18 A\$79m or 12% of sales
 - FY24 A\$214m or 14% of sales
- Product investment
 - New coffee SKUs in last 12mths
 - Beanz provides a differentiated offer and more effective promotional spend
- Expansion into offshore markets
- USA and Europe now c80% of sales
- c36% sales growth from new markets
- Sales growth c15% p.a. since 2016 under new management

Source: Company data, BAEP

The importance of innovation and reinvestment

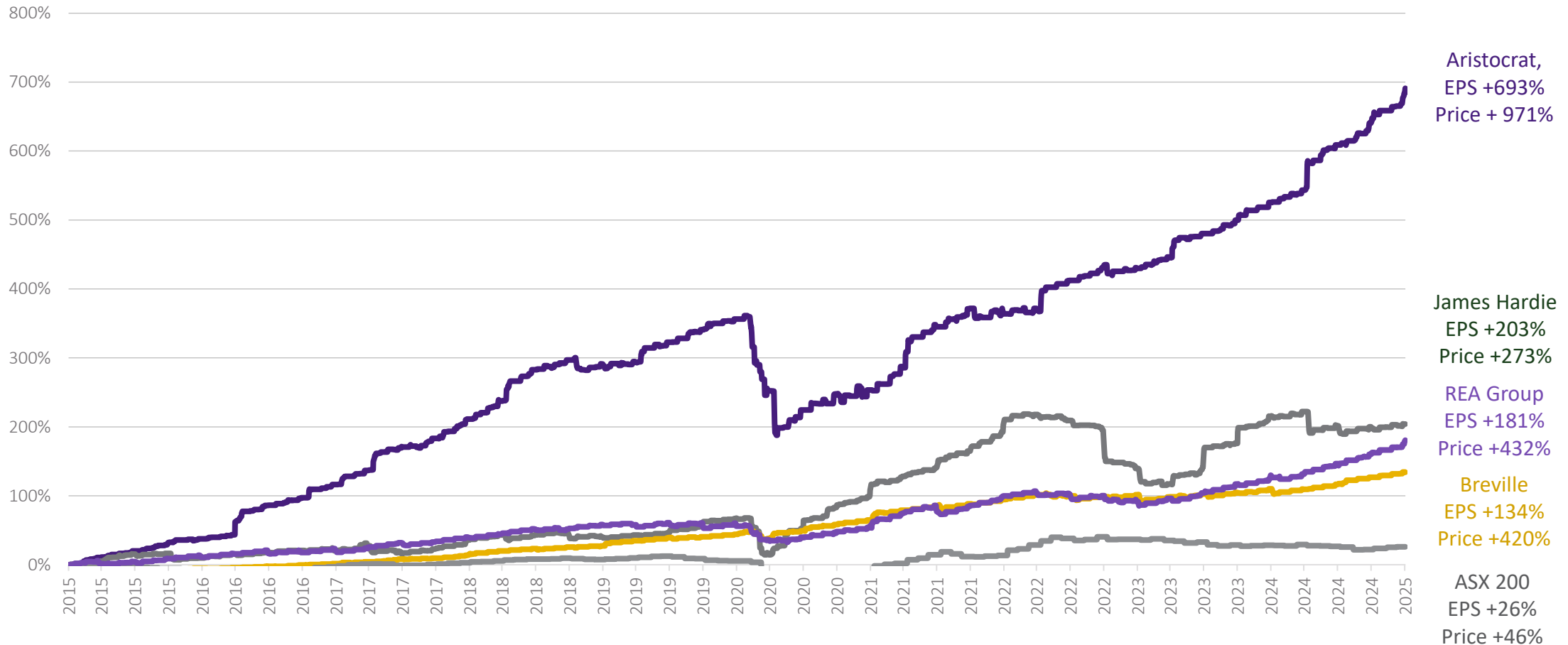


- Consistent D&D investment
 - FY14 => A\$121m
 - FY24 => A\$848m
- #1 performing games
 - 20 of top 25 US premium leased games
 - Premium leased games perform at 2.4x house average
- Significant market share gains
 - Leased games share over 40% vs. 19% in 2018
 - US Ship share ~25%
 - 10yr EPS CAGR 24%

Source: Company data, BAEP, Eilers

Superior growth drives superior returns... It's all about compound earnings growth

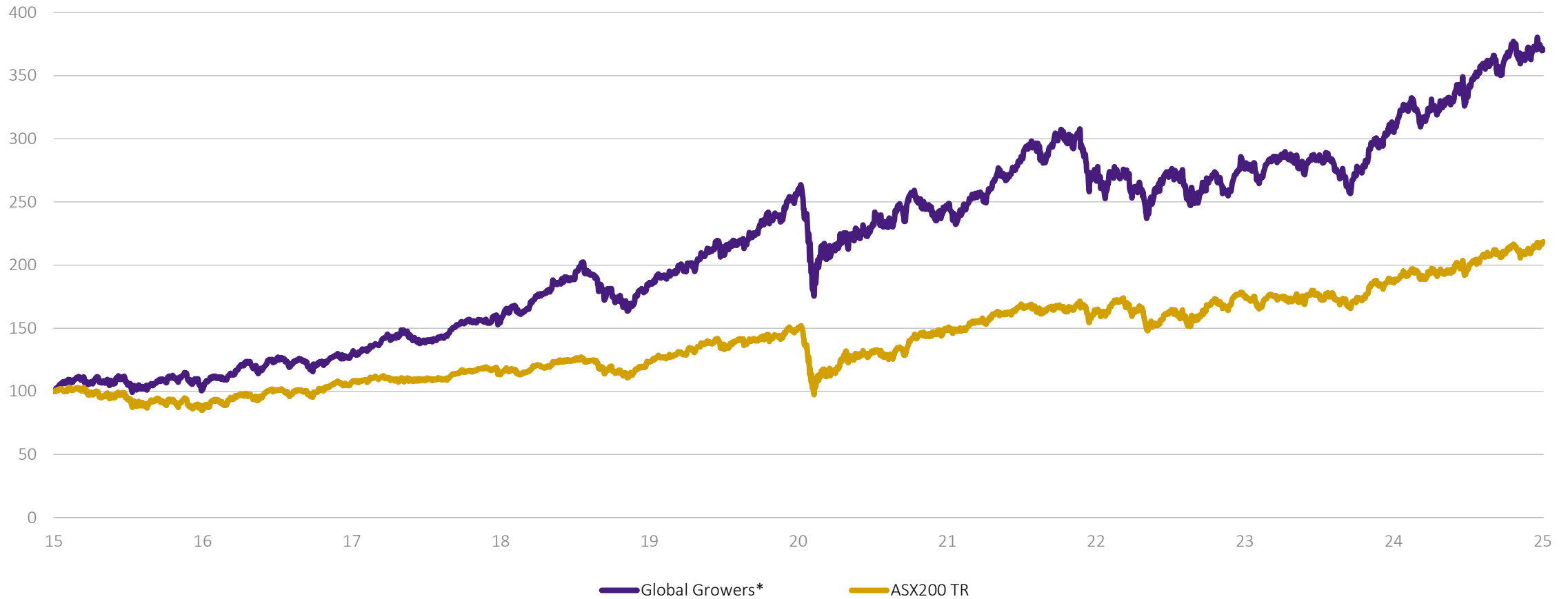
10 year EPS growth => selected stocks vs ASX 200



Source: Factset, BAEP

Global growth can offer superior returns

Global growers* cumulative daily total returns



Source: FactSet, Morgan Stanley Research; Performance for the 10Y ending January 22, 2025. Past performance is no guarantee of future results. *Global Growers includes: 360, A2M, AD8, ALL, ALX, AMC, ANN, ARB, BRG, BXB, COH, CPU, CSL, CTD, DMP, FLT, FPH, GMG, IEL, IPH, IPL, JHX, LLC, LOV, MFG, MP1, MQG, NUF, NWS, ORA, ORI, PME, QBE, REH, RMD, RWC, SDR, SHL, TWE, WOR, WTC, XRO.

There's better places to invest than banks and miners in 2025

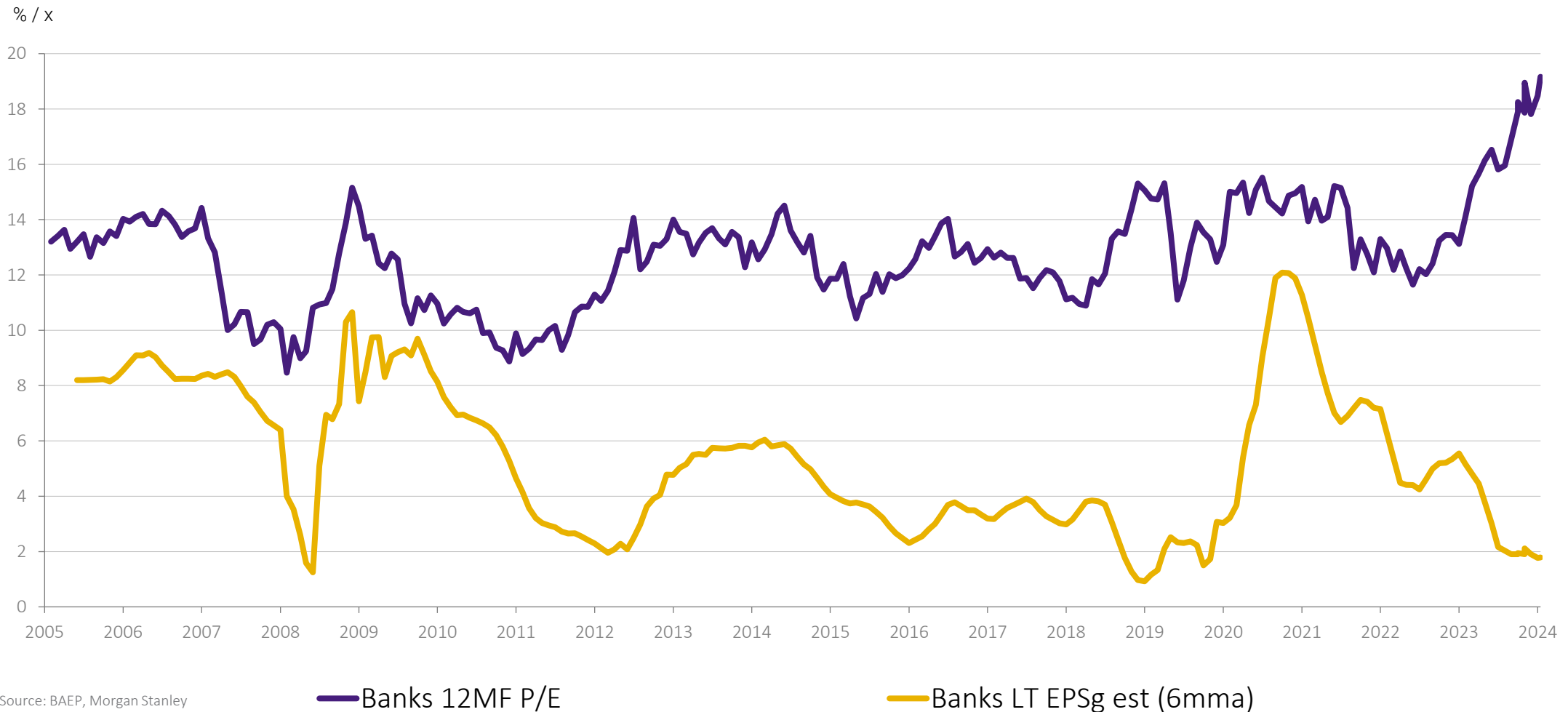
	ROE	Payout	3yr fwd EPSg	PE	PEG
ASX200's 50 Highest ROE	26%	57%	12%	20x	1.7x
CBA	13%	79%	4%	27x	6.4x
WBC	10%	81%	3%	17x	6.0x
NAB	11%	75%	2%	18x	9.2x
ANZ	10%	72%	2%	13x	6.2x
Big 4 average	11%	77%	3%	19x	6.8x
BHP	20%	52%	-7%	12x	1.8x
RIO	17%	58%	-1%	11x	11.7x
FMG	16%	63%	-22%	11x	0.5x
WDS	6%	77%	-21%	15x	0.7x

Banks have the same valuation as high ROE stocks, but only ¼ of the growth

Miners & Energy – it's hard to outperform with declining earnings. Years of underinvestment are impacting earnings growth.

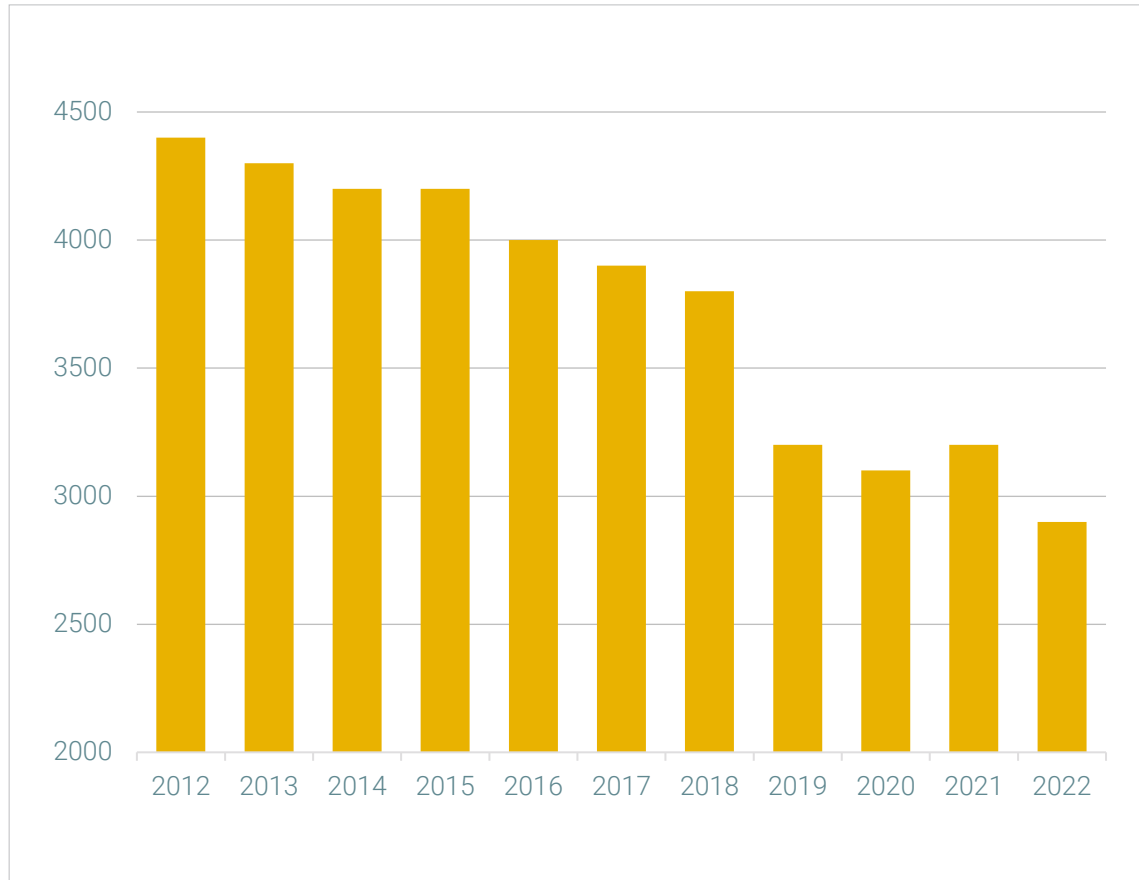
Source: BAEP, Macquarie Research.

Banks' sector earnings growth near all time lows... valuation at all time highs. Mind the gap!

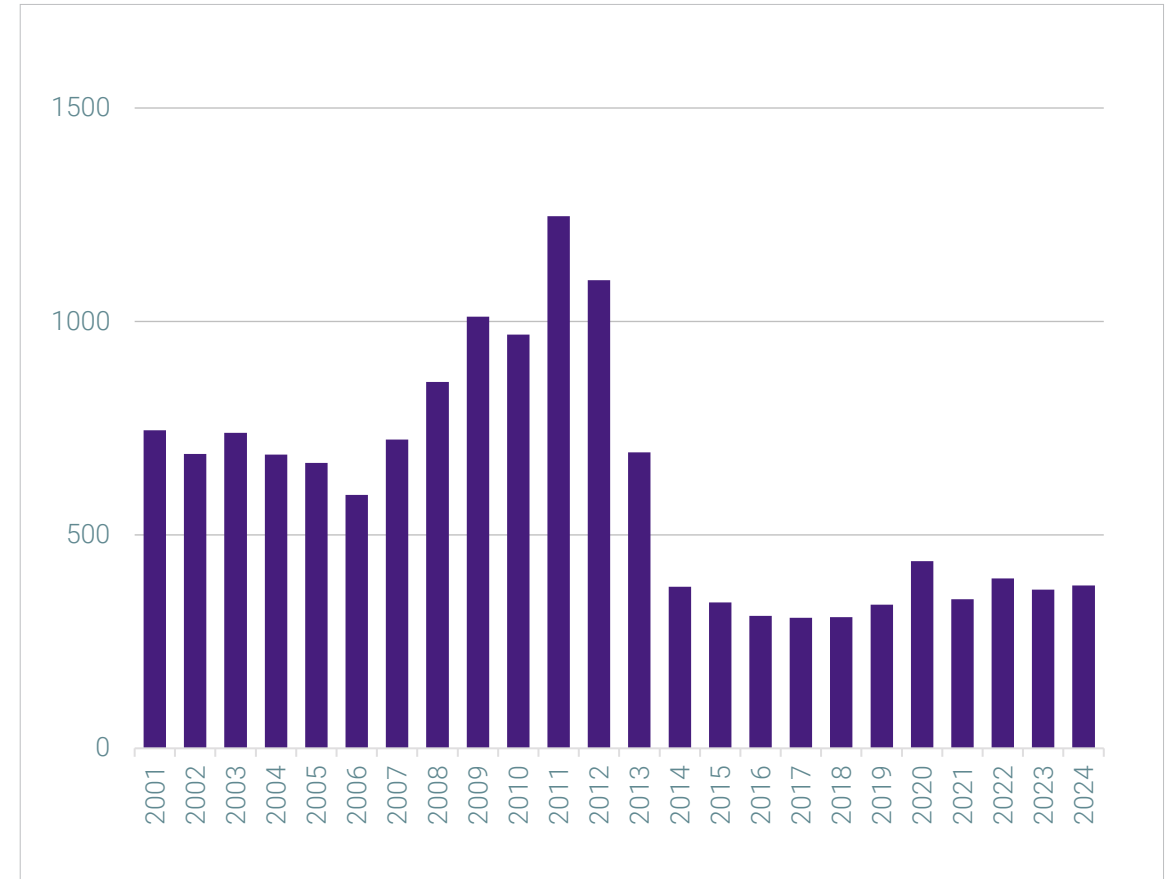


Less analysts in the market = more opportunity for active management

Global headcount in equity research



Weekly earnings revisions in ASX200 stocks



Source: UBS

Conclusion

- Share prices follow earnings – to deliver superior returns, own companies with superior growth
- Now is the time for the mid-cap companies that have reinvested to drive growth and outperform
- Index strategies may be held back by an Australian index which looks low growth and relatively expensive

Do you agree?

Mid caps can fill the Aussie large cap growth gap

Markets Summit 2025

Mind the gap(s)!

Debating the drivers of and the
outlook for investment markets

Supported by CIMA Society & Financial Advice NZ



Portfolio
Construction
Forum



Bennelong Australian Equity Partners



Long-only fund manager
founded in 2008 in
partnership with Bennelong
Funds Management



Managing ~\$6 billion
on behalf of institutions,
charities, family offices,
high-net-worth's
and retail clients








Majority owned
by the investment team,
who are also co-invested
in the various funds



Bottom-up investment approach, supported by **macro-economic expertise**,
selectively investing in:

- high quality companies;
- with strong growth outlooks; and
- underestimated earnings momentum and prospects

Overview of strategies

Fund	Description	Details
 <p>Bennelong Australian Equities Fund</p>	High conviction all-cap offering	<ul style="list-style-type: none"> All-cap fund with typically 25-30 high conviction stock positions that provide appropriate diversification across the ASX Competitively priced with no performance fees
 <p>Bennelong ex-20 Australian Equities Fund</p>	Mid-cap fund	<ul style="list-style-type: none"> A solution to gain diversification from the top 20 leaders Offers greater leverage to best ex-20 stock ideas
 <p>Bennelong Twenty20 Australian Equities Fund</p>	Low-cost enhanced index fund	<ul style="list-style-type: none"> Enhances an indexed position of the top 20 stocks with selective investment in the best ex-20 stock ideas
 <p>Bennelong Concentrated Australian Equities Fund</p>	High conviction index-unaware fund	<ul style="list-style-type: none"> All-cap fund with typically 20-35 high conviction stock positions
 <p>Bennelong Emerging Companies Fund</p>	Micro and small-cap offering	<ul style="list-style-type: none"> Provides exposure to micro and small-cap stock ideas Privileged access to IPOs (including new), placements and other corporate activity