

Key Points: Bennelong Kardinia Absolute Return Fund

- ❑ *Kardinia is a boutique Australian based Fund Manager established in August 2011 in conjunction with the Bennelong Group to continue the management of the Herschel Absolute Return Fund.*
- ❑ *Long biased, research driven, active equity long/short strategy investing in listed ASX companies with a seven year track record and an annualised return of 13.62% net of fees.*
- ❑ *Portfolio Managers Mark Burgess and Kristiaan Rehder have significant market experience, while the Bennelong Group provide infrastructure, operational, compliance and distribution capabilities.*
- ❑ *Consistent top decile long short equity sector performance. Key Performance and Risk Statistics indicate an attractive risk/reward profile, and a strong focus on capital protection in negative markets.*

Management Company Overview

Kardinia Capital Pty Ltd ("Kardinia") was established by Mark Burgess and Kristiaan Rehder in August 2011 following their departure from Herschel Asset Management in late July 2011. Kardinia was established in conjunction with Bennelong Funds Management ("BFM") to continue the management of the former Herschel Absolute Return Fund following the transfer of the Fund's management and operations from Herschel. Under this arrangement the Fund was renamed the Bennelong Kardinia Absolute Return Fund, employing the same investment strategy and enabling the retention of the previous five year track record.

Bennelong Funds Management (BFM) is a division of the Bennelong Group, a privately owned organisation, established in 2008 and which oversees a group of boutique fund managers across a range of strategies and funds.

Burgess and Rehder own the majority share of Kardinia, and led by Burgess are responsible for continuing the direction and implementation of the Fund's former investment strategy when it was under the Herschel banner. The balance of Kardinia is held by BFM who act as Trustee for the Fund, providing all administrative functions including accounting, compliance, risk management and licensing.

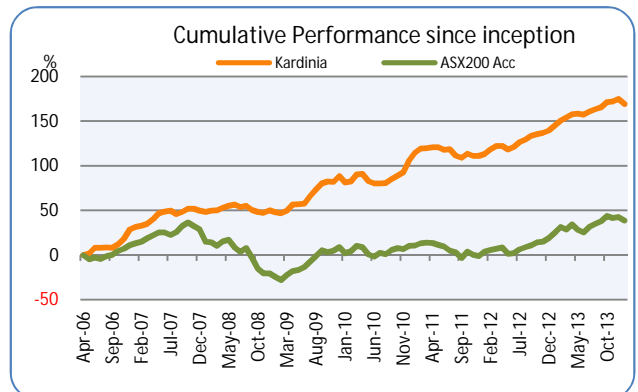
The Fund was originally launched in May 2006 as the Herschel Absolute Return Fund. Since inception it has been managed by Mark Burgess who commenced in the securities industry at ANZ McCaughan in 1987. This was followed by experience with Ord Minnett & JP Morgan in New York and London. While at Herschel Burgess had full responsibility for the Fund's investment strategy and implementation, assisted by Rehder who joined in 2005 following five years with Merrill Lynch in Australia, London and Singapore.

kardinia capital

Key Statistics	Kardinia ASX 200 Acc	
Jan-14	-2.12	-2.76
Annualised Return	13.62	4.32
Latest 3 Months	-0.89	-3.28
Latest 6 Months	3.19	5.35
Latest 12 Months	9.91	11.29
Latest 24 Months (p.a)	12.32	15.62
Latest 36 Months (p.a)	7.81	7.84
Latest 60 Months (p.a)	12.70	12.95
% Positive Months	74.19	59.14
Best Month	8.72	7.98
Worst Month	-4.38	-12.61
Largest Drawdown	-6.02	-47.19
Average +ve Return	1.99	3.33
Average -ve Return	-1.49	-3.74
Annualised Standard Deviation	7.78	14.58
Downside Deviation (Since Inception)	3.94	11.30
Sharpe Ratio (Since Inception)	1.10	0.05
Sortino Ratio	2.11	-0.03

*Statistics for the ASX are adjusted to the fund's start date

Chart 1: Cumulative returns



Kardinia has appointed Peter Lucas to the role of Investment Analyst from January 2014. Previously, Peter was Executive Director – Head of Melbourne Institutional Sales with Nomura Australia, where he played a key role in establishing their Australian equities business. He also worked for boutique fund manager AR Capital Management as a portfolio

Performance - Net of Fees (%)

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2014	-2.12	-	-	-	-	-	-	-	-	-	-	-	-2.12%
2013	2.21	2.36	1.42	1.34	0.40	-0.46	1.31	0.96	0.93	2.17	0.15	1.11	14.78%
2012	1.08	2.30	1.82	0.04	-1.79	1.38	2.30	1.38	1.85	0.68	0.71	1.07	13.52%
2011	4.25	2.13	0.23	0.37	0.11	-1.41	0.31	-3.23	-1.19	2.31	-1.16	-0.13	2.42%
2010	-3.82	0.66	4.36	0.36	-4.38	-1.33	0.03	0.09	2.49	2.19	2.02	6.84	9.33%
2009	-1.46	-0.68	1.79	4.56	0.34	0.54	5.31	4.41	3.86	1.21	-0.28	3.59	25.47%
2008	-1.00	1.12	0.17	1.93	1.33	0.87	-1.72	1.02	-3.20	-1.29	-0.81	2.04	0.30%
2007	2.04	1.28	1.45	3.74	4.95	1.21	0.65	-2.62	1.76	2.36	-0.02	-1.34	16.36%

January 2014 -2.12 %
Last 12 months +9.91 %

manager for their absolute return hedge fund. Peter's industry experience also includes analyst roles in Australia and London with HSBC and Credit Lyonnais Securities, amongst others.

Investment Strategy and Implementation

The Bennelong Kardinia Absolute Return Fund is an Australian domiciled equity long/short fund investing in ASX securities open to retail and wholesale investors. The Fund uses exchange traded call options and there is limited use of SPI futures contracts to hedge overall market risk.

The Fund consists of a concentrated long/short portfolio typically comprising 20 to 50 ASX300 listed stocks, generally with a long bias aligned to the overall market direction. On average since inception the Fund's exposure has averaged 40% net long.

There is a slight bias to large cap stocks on the long side of the portfolio, although in a rising market the portfolio will tend to hold smaller caps, including resource stocks, more frequently. On the short side, the portfolio is particularly concentrated, with stock selection limited by both liquidity and the difficulty of borrowing stock in smaller cap companies. Short positions are only taken when there is a high conviction view on the specific stock. The Fund uses derivatives in a limited way, mainly selling short dated covered call options to generate additional income. These typically have less than 30 days to expiry, and are usually 5% to 10% out of the money. ASX SPI futures and index put options can be used to hedge the portfolio's overall net position.

The Fund's discretionary investment strategy commences with a macro view of the economy and direction to establish the portfolio's desired market exposure. Following this detailed sector and company research is gathered from knowledge of the individual stocks in the Fund's universe, with widespread use of broker research. Company visits, presentations and discussions with management at CEO and CFO level are used wherever possible to assess management quality across a range of criteria.

Detailed analysis of company valuations using financial statements and forecasts, particularly focusing on free cash flow, is conducted. Technical analysis is used to validate the Manager's fundamental research and valuations and to manage market timing.

A significant portion of the Fund's overall performance can be attributed to the attention and importance given to the macro economic outlook and the ability and willingness to adjust the Fund's market risk. For example in 2007 leading into the 2008 sub-prime crisis Burgess significantly reduced the Fund's long positions from over 80% to under 20%, and net exposure from 75% to under 10%, before increasing it in March 2009 as the market rallied sharply from its oversold position.

Risk Management

Typically the portfolio may contain 20 to 50 positions at any one time, with an average of 35 and a holding period for each of around six months. There is a high conviction when entering a position, with a minimum entry position of approximately 1% of the portfolio's NAV, and a maximum position size of 10%. There are no set limits for sector exposure. The combined gross exposure of both long and short positions is limited to 150% of NAV, while net equity exposure (long – short positions) is unlikely to exceed 75% of NAV. The Fund does not use any borrowing to create leverage and has specific risk limits with a hard stop loss limit of 15% on each position. In practical terms this is rarely achieved as the portfolio management system flags positions on reaching a 10% drawdown, at which time the position is reassessed.

Bennelong Kardinia Absolute Return Key Facts

Strategy	Equity Long/Short
Domicile	Australia
Investor Type	Retail and Wholesale
Min. Investment	A\$20,000
Additional Investment	A\$10,000
Management Fee	1.5% p.a
Performance Fee	20% p.a. with high water mark
Hurdle	RBA Cash Rate
Distributions	30 June & 31 December
Min. Term	1 day
Redemption Notice	Daily with payment within 14 days
Inception Date	May-06
Fund Size	A\$166 million
Manager's Total FUM	A\$5.5billion (Bennelong Group)

Chart 2: Monthly Returns

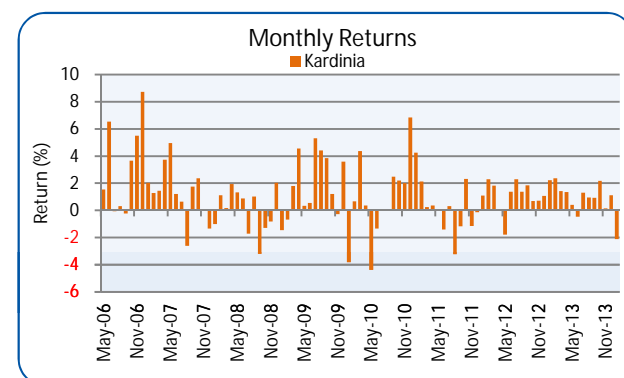


Chart 3: Distribution of monthly returns

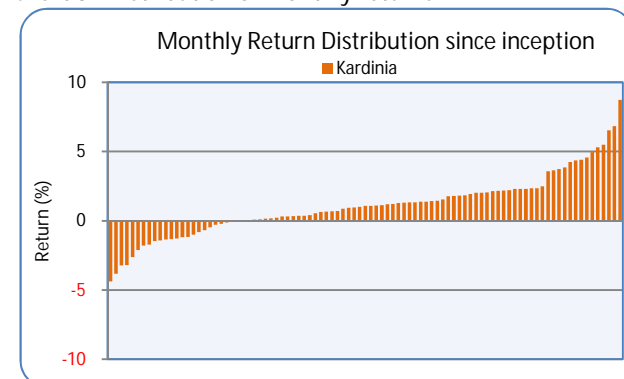
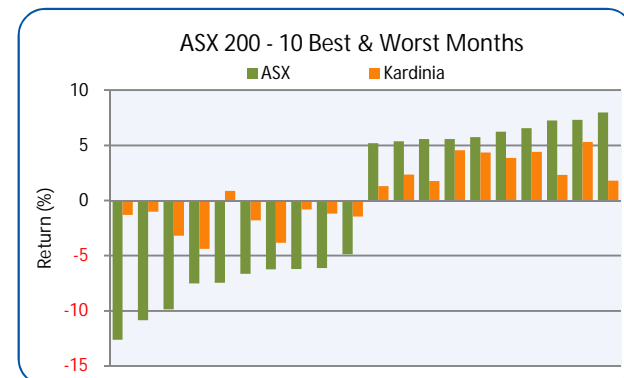


Chart 4: Correlation to ASX200's best and worst months



Risk Management (continued)

Stop loss limits are set from the position's inception, and re-set each month. There are no set liquidity limits for the overall Fund or underlying positions, and while FUM remains small this is not considered to be an issue.

Position limits are monitored on a real time basis using IRESS and proprietary Excel spreadsheets, and reconciled daily with the Fund's Prime Broker and Administrator. Bennelong's back office and administrative team monitor risk limits and compliance, with any breaches notified via email and reviewed by the Board's Audit Risk and Compliance Committee which meets quarterly.

Performance Review

The Fund's historical performance statistics indicate that Burgess and Rehder's past management of the Fund provided investors with both high annualised returns and capital protection under a variety of investment conditions. This was achieved by outperforming, or performing in line with the ASX200 Acc during strong markets such as 2006 - 2007 and March to December 2009; avoiding losses during 2008 & 2011, and returning 9.33% during 2010 when the ASX was flat.

The Key Performance and Risk Statistics (see Key Statistics Table) demonstrate the Fund's ability to avoid large drawdowns and losses, with the worst month being -4.38% in May 2010 and the Fund's maximum drawdown are remarkable at 6.02% as compared to 47.19% for the Index. The drawdown only took 2 months to recover the previous "High Water Mark". The Fund has also recorded an asymmetrical return profile as indicated by the ratio of positive to negative months of 2.9, with 74.2% of months positive.

While not immune to losses when the market falls sharply the Fund has significantly avoided the worst of these and has a high correlation to the ASX200's strongest months (see Chart 4). The Fund has a standard deviation or volatility of 7.78% pa, a Sharpe Ratio of 1.10 and an annualised performance since inception of 13.62% pa compared to the ASX200 Accumulation's data for the same measures of: volatility 14.58%; Sharpe Ratio 0.05; and annualised return of 4.32% pa.

While the Fund seeks to provide "Absolute Returns", as a comparison it has outperformed the ASX200 overwhelmingly compared with AFM's Key Performance and Risk Statistics over the same period.

The negative result of -3.23% in August 2011 occurred while the Fund was in caretaker or transition mode. Burgess and Rehder resigned from Herschel in late July, and management of the Fund was not transferred to Kardinia until 16th August. During this time the ASX200 experienced extreme volatility, falling at one stage by over 10% while neither portfolio manager was overseeing the portfolio.

Operations and Business Risk

The Fund has an ongoing outsourced arrangement to monitor compliance with Compliance and Risk Services Pty Ltd. This involves overall compliance and risk for Kardinia and the Fund, in addition to BFM's internal compliance manager.

Bennelong Funds Management has an active IT & Disaster Recovery system with daily offsite tape back up, and PC replication managed externally. This is being replicated for Kardinia.

Key person risk focuses on Mark Burgess and is typical for a boutique manager of Kardinia's size. Offsetting this is the close support of Portfolio Manager Kristiaan Rehder, the Fund's relatively small size, and the liquidity of the ASX listed positions. Investment decisions are broadly discussed between each Portfolio Manager, with Burgess having overall responsibility and the final decision when required.

Burgess and Rehder's close working relationship while at Herschel is an important factor in the portfolio's management.

Overall business and operational risk is significantly reduced as a result of Bennelong's involvement both as a 35% shareholder and also as the AFS Licensee and Trustee for the Fund. Bennelong has significant operational structures, systems and processes in place across a range of fund offerings, headed by CEO Jarrod Brown, an experienced financial services executive who is supported by the Head of Distribution Andrew Aitken. In total there are 19 management, administrative and distribution staff employed by Bennelong Funds Management.

Investor Relations

The Fund issues a two page Performance Report usually within the first 5 business days of each month which provides NAV's and net performance after all fees and charges, as verified by the Fund's external Administrator. The monthly report also shows historical performance and exposure analysis and a brief commentary on both the market and the Fund's performance. It also names the significant contributors and detractors to the Fund's overall performance for the month.

While under the Herschel banner the Fund enjoyed top tier performance but struggled to attract or retain significant investors, which saw funds under management (FUM) fall below A\$20m. Bennelong's track record in distribution and capital raising has significantly improved this situation, while the investment team of Burgess and Rehder, and since January 2014, Lucas, have continued to demonstrate their ability to provide attractive risk adjusted returns. The Manager believes that the Fund's capacity is around \$500 million and intend to restrict inflows at that level.

Terms and Fees

Management fees are 1.5% of Net Asset Value (NAV) payable monthly. The manager also receives a Performance Fee of 20% of performance above the RBA Official Cash Rate subject to a High Water Mark, calculated monthly and payable half yearly. The Fund charges a buy/sell spread of 0.20% on entry and exit to cover brokerage costs. The Fund is also responsible for all reasonably and properly incurred expenses such as administration, accounting and transactional costs.

Realised income is distributed semi annually shortly after the end of June and December and may be re-invested or distributed at the investor's discretion.

The minimum initial investment is \$20,000 with a minimum additional investment and withdrawal limit of \$10,000. There is no minimum term and there are no early termination fees. Investments and redemptions may be made daily with payment made within 14 days of receipt of the redemption request.

Burgess and Rehder are significant investors in the Fund on the same terms as external investors. Both increased their personal investment on transfer of the Fund to Bennelong Kardinia's management.

Structure and Compliance

The Bennelong Kardinia Absolute Return Fund is an Australian Unit Trust open to retail and wholesale investors under a PDS dated 2 September 2013. Kardinia Capital Pty Ltd is a Corporate Authorised Representative (Number 409528) of Bennelong Funds Management Limited, which in turn holds AFS Licence 296806.

Bennelong maintains a detailed operations and compliance manual with any breaches notified via email at the time, and subsequently reviewed at the quarterly meeting of the Board's Audit Risk and Compliance Committee.

The Manager states that there are no conflicts of interest. Personal trading by staff is permitted only if there is no current or anticipated activity in a stock by the Fund and only after written permission has been sought and received from Bennelong's CFO.

Prime Broker: UBS Australia

Administrator: TMF Fund Administrators

Auditor: Deloitte

Legal: DLA Piper

Commentary and performance data in this Fund Review is updated monthly by Australian Fund Monitors Pty Ltd.

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