

Bennelong Kardinia Absolute Return Fund

Monthly performance report

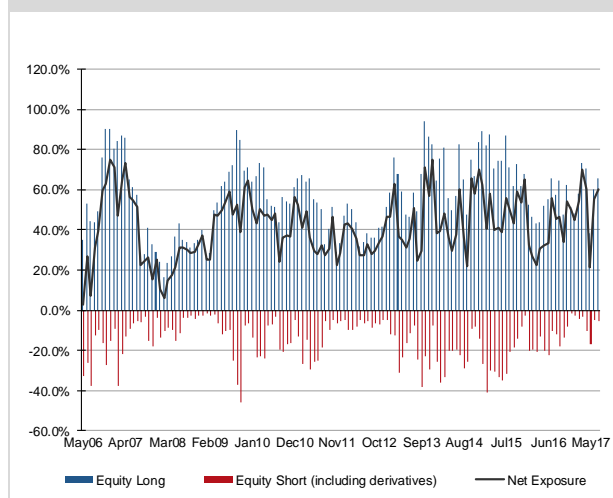
As at 31 July 2017

Fund at a glance

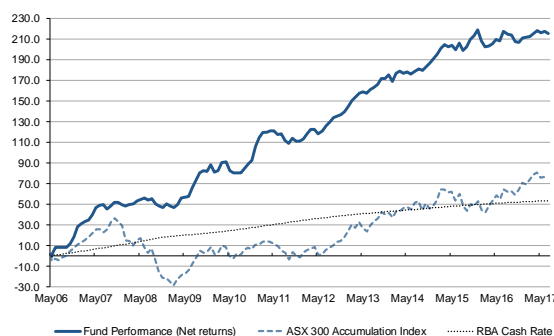
Fund facts	
Strategy	Long-short Australian equity
Process	Fundamental stock selection based on analysis of the macroeconomic environment, company and operating environment, quality of management and valuation
Objective	To achieve double digit annual rates of return through an investment cycle, with an overarching philosophy of capital protection
FUM	AUD 293.4 million
Inception date	1 May 2006
Unit price: daily series	1.1387 ex distribution
Unit price: monthly series	1.3450 ex distribution
Fund managers	Mark Burgess, CFA® Kristiaan Rehder, CFA®
Annualised return	10.74%
Return since inception	215.10%
Annualised standard deviation	7.09%
Sharpe ratio (RFR=RBA cash)	0.97
Percentage of positive months	71.11%

Fund in review

Portfolio exposure analysis



Fund performance



Source: Kardinia Capital

Timeframe	Fund return	Benchmark	Value added
1 month	(0.65%)	0.13%	(0.78%)
3 months	(0.92%)	0.38%	(1.30%)
6 months	1.25%	0.75%	0.50%
1 year	(0.68%)	1.51%	(2.19%)
3 years p.a.	4.13%	1.94%	2.20%
5 years p.a.	6.84%	2.29%	4.55%
Since inception p.a.	10.74%	3.89%	6.85%

Note: Performance results are presented net of all transaction costs, investment management and performance fees and all other costs incurred by the Fund. Performance is the total return of the fund (assuming re-investment of distributions) and is quoted based on hard-close unit prices, without including the impact of buy/sell spreads. The benchmark is the RBA cash rate and the inception date is 1 May 2006.

Top holdings	Sector	%
Commonwealth Bank	Banks	6.6%
ANZ	Banks	6.5%
NAB	Banks	6.5%
Boral	Materials	3.3%
Bluescope Steel	Materials	3.3%
BHP	Materials	3.2%

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Market and fund commentary

The Australian market was rangebound in July with the S&P/ASX 300 Accumulation Index finishing the month up 0.01%. US markets (Dow Jones +2.7%, S&P500 +2.1%, NASDAQ +3.4%) all posted record highs after the US Fed emphasised a gradual approach to monetary policy normalisation and US corporates reported solid 2Q results.

Global economic data was generally positive throughout the month. US jobs data, Chinese GDP growth, Eurozone industrial production and Australian employment data were all strong, providing evidence of a synchronised global economic recovery. Markets focused more keenly on the potential timing of any exit to various stimulatory monetary policies around the world. The European Central Bank noted the 'unquestionable improvement' in Eurozone growth, but, like the US Fed, Bank of Japan and Reserve Bank of Australia, delayed any winding back of stimulus for the time being. The US Fed said it would begin 'relatively soon' whilst the Bank of Canada raised rates by 25bp to 75bp for the first time in seven years. US and Australian bond yields were relatively stable for the month.

The A\$/US\$ rose 4.1% to US\$0.80 after the Reserve Bank of Australia suggested the 'neutral' cash rate was ~3.5% (vs 1.5% currently) although the RBA then downplayed the importance of the comments. The strong rally in the A\$ led to a sizeable selloff in the 'offshore earners' during the month, particularly the Health Care sector. There was a broad-based rally in commodities (Brent oil +8%, copper +7%, iron ore +14%) driven by increased confidence in Chinese demand, the weak US\$ and a pledge by Saudi Arabia

to curtail oil exports. Gold strengthened 2.7%.

The best sectors for the month were Materials (+3.6%), Financials ex REITs (+1.2%) and Consumer Staples (+1.1%); whilst Health Care (-7.5%), Utilities (-5.3%) and Telcos (-4.3%) lagged.

The Bennelong Kardinia Absolute Return Fund fell 0.65% in July, weighed down by its exposure to companies with significant offshore earnings.

BHP (+35bp) benefited from the strong rise in commodities prices and a 4Q production report that was in line with market expectations. JB Hi-Fi (+29bp) recovered from several months of heavy selling due to fears about the impact of Amazon and a stretched consumer as the market instead focused on the potential for a solid upcoming profit result. South32 (+17bp) rallied on the back of strengthening coal prices despite a disappointing quarterly production report. RCR Tomlinson (+12bp) benefited from an improving outlook in rail, solar and power markets.

Aristocrat Leisure (-34bp) and Amcor (-17bp) were impacted by the strong A\$/US\$ and James Hardie (-14bp) was also weak on concerns over its upcoming 1Q18 result given higher pulp prices and the potential for ongoing plant inefficiencies. Oil Search (-13bp) was weaker despite the rally in the oil price as PNG elections took place.

The short book outperformed the long book with Asaleo Care, Telstra and Westfield all making solid contributions.

Net equity market exposure including derivatives increased from 55.4% to 60.4% (65.8% long and 5.4% short) as we increased our holdings in Bluescope, JB Hi-Fi and three of the four major banks.

Fund performance

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2017	0.12%	0.25%	1.04%	0.89%	-0.75%	0.48%	-0.65%						1.37%
2016	-3.42%	-1.78%	0.30%	0.52%	1.60%	-0.47%	2.95%	-1.02%	-0.22%	-1.85%	-0.37%	1.45%	-2.44%
2015	1.44%	1.90%	1.24%	-0.59%	0.41%	-1.49%	2.20%	-2.27%	1.14%	2.45%	1.16%	1.74%	9.60%
2014	-2.12%	2.69%	0.87%	-0.63%	0.36%	-0.66%	1.07%	0.56%	-0.31%	1.22%	1.13%	1.53%	5.77%
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%	14.76%
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%
2006					1.53%	6.54%	-0.06%	0.32%	-0.22%	3.65%	5.50%	8.72%	28.67%

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How to invest

The Fund is open to investors directly via the PDS, available on our [website](#), or via a range of platforms.

Platforms	
AMP: North, PortfolioCare (incl. eWrap), Wealthview, PPS	Hub 24
Asgard: MasterFund, eWrap, Infinity	Macquarie Wrap: IDPS, Super
BT Wrap	Netwealth Wrap Services
CFS: FirstChoice, FirstWrap	Oasis: Dominion, Superior Wealth, Wealthtrac
Credit Suisse (HSBC)	UBS
Federation Managed Accounts	

Contact details

For more information, contact Client Services on 1800 895 388 (AU) or 0800 442 304 (NZ), or visit kardiniacapital.com.au

Notes:

1. Kardinia Capital is an investment manager that invests solely in Australian and New Zealand securities.
2. The Bennelong Kardinia Absolute Return Fund (Fund) was launched on 1 May 2006 by another trustee. Bennelong Funds Management Ltd (Bennelong) assumed responsibility as replacement trustee on 16 August 2011. Performance information prior to 16 August 2011 relates to the previous trustee. Mark Burgess and Kristiaan Rehder were employed by the previous trustee and became employees of Kardinia Capital Pty Limited (Kardinia), which has been engaged by Bennelong to manage the Fund, in August 2011. Kardinia intends to apply the same investment philosophy and strategy in respect of the Fund. Past performance is not a reliable indicator of future performance.
3. Valuations are computed and stated in Australian dollars and are provided by independent service provider, Custom House Fund Services (Australia) Pty Limited (Custom House).
4. Performance results are presented net of all transaction costs, investment management and performance fees and all other costs incurred by the Fund. Performance is the total return of the fund (assuming re-investment of distributions) and is quoted based on hard-close unit prices, without including the impact of buy/sell spreads.
5. The Fund's benchmark is the RBA cash rate. Since inception annualised compound return is 10.74%; annualised compound benchmark return is 3.89%.
6. A complete and detailed list of performance results including a presentation is available upon request.
7. Please note that performance data for the Fund is historical data based on the main series using a monthly unit pricing methodology. For those who are invested in the daily series please contact Client Services (1800 895 388 or client.services@bennelongfunds.com) to request your performance history.

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