

Bennelong Kardinia Absolute Return Fund

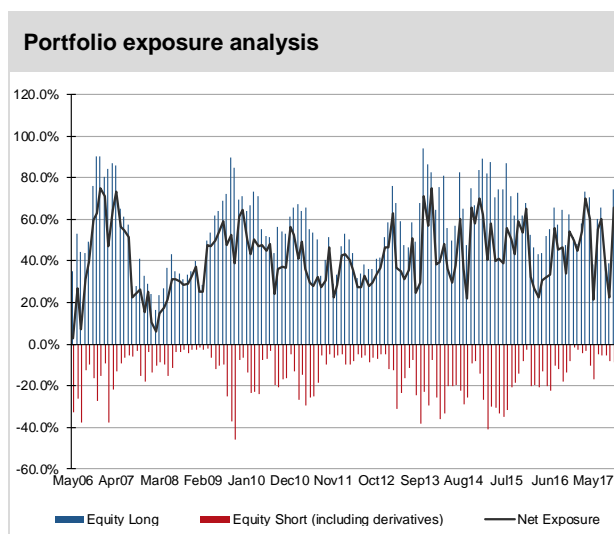
Monthly performance report

As at 31 October 2017

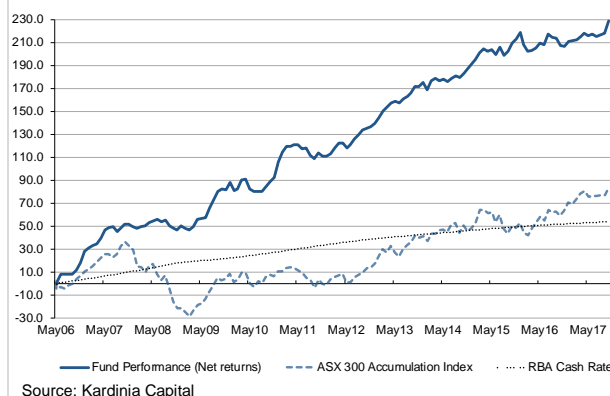
Fund at a glance

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 234.5 million
Inception date	1 May 2006
Unit price: daily series	1.1870
Unit price: monthly series	1.4017
Fund managers	Mark Burgess, CFA® Kristiaan Rehder, CFA®
Annualised return	10.89%
Total return since inception	228.39%
Annualised standard deviation	7.04%
Sharpe ratio (RFR=RBA cash)	1.01
Percentage of positive months since inception	71.74%

Fund in review



Fund performance



Timeframe	Fund return	Benchmark	Value added
1 month	3.18%	0.13%	3.06%
3 months	4.22%	0.38%	3.84%
6 months	3.26%	0.76%	2.50%
1 year	6.77%	1.51%	5.26%
3 years p.a.	5.06%	1.85%	3.21%
5 years p.a.	6.89%	2.19%	4.70%
Since inception p.a.	10.89%	3.84%	7.05%

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.

Largest holdings	Sector	%
Westpac	Financials	8.8%
NAB	Financials	7.8%
Rio Tinto	Materials	3.6%
Ancor	Materials	3.2%
Costa Group	Consumer Staples	2.8%
Boral	Materials	2.7%
Aristocrat	Consumer Services	2.7%
Alumina	Materials	2.7%

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Market and fund commentary

The Australian market was up strongly in October (S&P/ASX 300 Accumulation Index +4.02%), posting its best month for the year. Global markets were also positive (S&P500 +2.3%, DJ Euro Stoxx 50 +2.3%, Nikkei 225 +8.2%). The strong returns were driven by continuing evidence of a synchronised global economic recovery without signs of meaningful inflation. Japan outperformed after Prime Minister Abe was re-elected in a decisive victory.

Domestic economic data was mixed, with very robust employment data offset by very weak retail sales. Global economic data was generally positive. US, Eurozone and Japanese manufacturing surveys hit multi-year highs and US real GDP growth was +3.0% (qoq annualised). Chinese activity survey data was slightly weaker; however, 3Q real GDP (+6.8% yoy) and September industrial production (+6.6% yoy) were above market expectations.

Base metals prices increased significantly during the month (nickel +18%, copper +6%, zinc +4%), driven by global growth expectations and potential future supply deficits. This was despite strength in the US dollar (AUD/USD -2.3% to US\$0.7656). Iron ore was weaker (-US\$3.00 to US\$58.50) due to impending Chinese winter steel production cuts. Oil rallied (Brent +8%) following strong compliance with OPEC quota cuts and comments from Saudi Arabia's Oil Minister reiterating they would do "whatever it takes" to bring crude inventories back to normal.

The best sectors for the month were Energy (+6.5%), Consumer Discretionary (+6.2%) and Health Care (+5.5%), while REITS (+2.2%), Telcos (+2.4%) and Financials ex REITs (+3.2%) lagged.

The Bennelong Kardinia Absolute Return Fund returned 3.18% in October.

BWX (+32bp contribution for the month) was the largest contributor after announcing the highly accretive acquisition of Andalou Naturals in the US. National Australia Bank (+30bp) and Westpac (+21bp) were both strong as the market anticipated reasonable full year profit results, driven by mortgage book repricing and low bad and doubtful debts. Clean TeQ (+30bp) rallied on the back of buoyant nickel and cobalt prices and an updated mineral resource that included a significant increase in cobalt grades, paving the way for higher cobalt production in the first 10 years of mine life.

Aristocrat (+28bp) benefited from positive feedback from the G2E conference, which suggested ongoing market share gains within North America. Costa Group (+28bp) continued to rally after its recent strong result (net profit +37%), driven by robust growth in berries, tomatoes and a maiden profit in China (12 months ahead of schedule).

A short position in Share Price Index Futures (-10bp for the month) was the largest detractor, although this position was closed out early in the month. Updater (-5bp) fell, despite announcing strong market penetration of quarterly moves and a fifth pilot program. The short book was a small drag on performance given the strong market, although shorts in Fortescue and Perpetual performed well, adding 11 basis points for the month.

Net equity market exposure, including derivatives, was increased from 22.4% to 65.5% (74.3% long and 8.8% short) as we bought back a short position in Share Price Index Futures and added 10 new positions to the portfolio, including National Australia Bank, Westpac and a number of resource stocks.

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%	0.34%	0.66%	3.18%			5.64%
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 at kardiniacapital.com.au), or 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 Service
CFS: FirstChoice, FirstWrap	Oasis: Dominion, Superior Wealth, Wealthtrac
Credit Suisse (HSBC) Federation Managed Accounts	UBS

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 has applied 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 10.89%; annualised compound benchmark return is 3.84%.
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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