

Bennelong Kardinia Absolute Return Fund

Monthly performance report

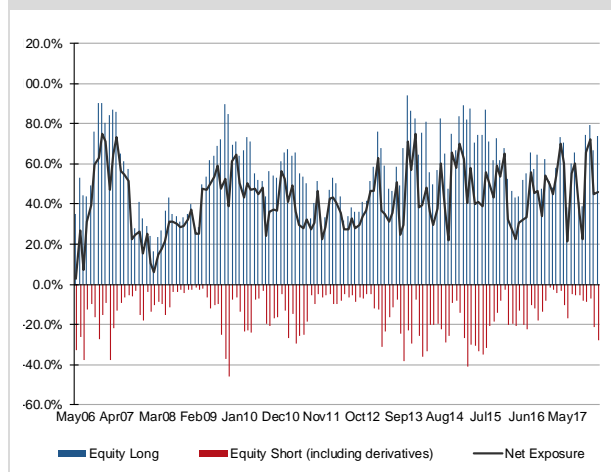
As at 31 January 2018

Fund at a glance

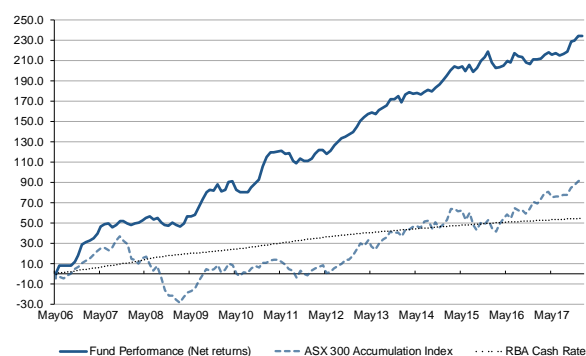
Fund facts	
Strategy	Long-short Australian equity
Process	Fundamental stock selection based on analysis of the macroeconomic environment, company and operating environment, quality of management and valuation
Objective	To achieve double digit annual rates of return through an investment cycle, with an overarching philosophy of capital protection
FUM	AUD 220.8 million
Inception date	1 May 2006
Unit price: daily series	1.1952
Unit price: monthly series	1.4113
Fund managers	Mark Burgess, CFA® Kristiaan Rehder, CFA®
Annualised return	10.80%
Total return since inception	233.69%
Annualised standard deviation	6.98%
Sharpe ratio (RFR=RBA cash)	1.01
Percentage of positive months since inception	71.63%

Fund in review

Portfolio exposure analysis



Fund performance



Source: Kardinia Capital

Timeframe	Fund return	Benchmark	Value added
1 month	(0.16%)	0.13%	(0.29%)
3 months	1.62%	0.38%	1.24%
6 months	5.90%	0.76%	5.14%
1 year	7.22%	1.51%	5.71%
3 years p.a.	4.20%	1.77%	2.44%
5 years p.a.	6.39%	2.11%	4.28%
Since inception p.a.	10.80%	3.79%	7.01%

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	%
Boral	Materials	4.1%
CSL	Health Care	4.0%
Macquarie Group	Financials	3.6%
The Star Ent.	Consumer Discr.	3.2%
Whitehaven Coal	Materials	3.1%
Qantas	Industrials	2.9%
Aristocrat Leisure	Consumer Discr.	2.6%
Alumina	Materials	2.5%
Independence Group	Materials	2.4%

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Market and fund commentary

The Australian market fell in January (S&P/ASX 300 Accumulation Index -0.39%), significantly underperforming US markets (S&P500 +5.7%, Dow Jones +5.8%, NASDAQ +7.4%).

Domestic economic data was generally positive, with 35k jobs added in November (unemployment rate 5.5%), residential building approvals up 11.7% (vs consensus -1.3%) to an annualised 253k, and retail sales up 1.2% (vs consensus up 0.4%).

US markets were driven higher by a positive 4Q reporting season (including upgrades to guidance on the back of Trump's tax cuts) as well as generally strong US economic data (December ISM manufacturing index 59.7, December industrial production +0.9% month on month).

Eurozone economic indicators remained strong (January flash composite PMI rose to 58.6, an 11½ year high) and China data was also solid (Markit/Caixin manufacturing PMI for December rose to 51.5).

Oil was firmer (Brent +3.4% to US\$68.87/bbl, WTI +7.2% to US\$64.77/bbl) but bulk commodities were generally weaker (iron ore -2% to US\$73.10/t, met coal -17% to US\$218.50/t, thermal coal +3.4% to US\$106/t). Base metals were mixed, with strong rises in zinc (+7.7%) and nickel (+6.7%) but falls in copper (-1.8%) and aluminium (-1.6%). The AUD/USD rose 3% to US\$0.806.

The best sectors for the month were Health Care (+3.2%), Telcos (+0.8%) and Consumer Staples (+0.5%), while Utilities (-4.5%), REITs (-3.3%) and Industrials (-2.1%) lagged.

The Bennelong Kardinia Absolute Return Fund fell 0.16% in January.

Whitehaven Coal (+23bp contribution for the month) benefited from buoyant thermal coal prices (driven by Chinese market deficits) despite a disappointing quarterly production update. Seven Group (+13bp) continued to re-rate as partner Caterpillar and global peer Komatsu reported strong and broad-based growth in machine sales globally. South32 (+11bp) had a mixed quarterly production report but the market remained focused on strong cash flows as a result of higher thermal coal prices. Macquarie Group (+11bp) rose on expectations of profit upgrades during the year, driven by continued global growth, an improved commodities trading environment and US tax cuts. Independence Group (+11bp) benefited from higher nickel prices despite a mixed quarterly production report.

Short positions in Share Price Index Futures (+29bp) and Macquarie Atlas (+6bp) also contributed.

Mineral Resources (-25bp contribution for the month) was impacted by weaker iron ore prices (and discounts of more than 40% for fines product) as well as concerns over future lithium market oversupply following the announcement by SQM, a Chilean lithium miner, of a large potential increase in lithium production by 2025. Netwealth (-21bp), an independent investment platform, gave up some of its gains since listing in late November while Costa Group (-19bp) fell on limited newsflow. Amcor (-16bp) was softer due to concerns about its upcoming interim result given a weak start to the year and higher raw materials costs.

Net equity market exposure (including derivatives) was kept fairly stable at 46.0% (73.9% long and 27.9% short) as we added new positions in Bellamy's, Qantas and Worley, sold Incitec Pivot and added to our short position in Share Price Index Futures.

Fund performance

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2018	-0.16%												-0.16%
2017	0.12%	0.25%	1.04%	0.89%	-0.75%	0.48%	-0.65%	0.34%	0.66%	3.18%	0.35%	1.43%	7.53%
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: Elements Investment, Elements Pension, North, My North, PPS, Portfolio Care, Portfolio Care eWrap, Weathview eWrap Inv.	Hub 24: Super, IDPS
Asgard: Master Trust, eWrap, Employee Super, Infinity	IOOF: SuperWrap
BT: Wrap, Super Wrap, Panorama	Macquarie Wrap: IDPS, Super, Accumulator
CFS: First Choice, FirstWrap	Netwealth: Super Service, Wrap Service
Credit Suisse	Oasis: Wealthtrac, Dominion
Federation	Powerwrap: Super, Pension, Smartwrap

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 10.80%; annualised compound benchmark return is 3.79%.
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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