# Bennelong Kardinia Absolute Return Fund

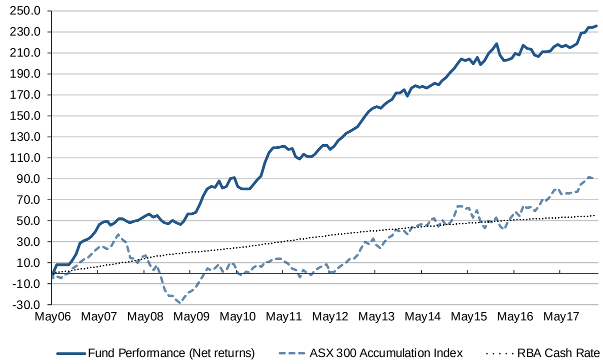
## Monthly performance report

As at 28 February 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 210.9 million |
| Inception date | 1 May 2006 |
| Unit price: daily series | 1.2020 |
| Unit price: monthly series | 1.4192 |
| Fund managers | Mark Burgess, CFA®<br>Kristiaan Rehder, CFA® |
| Annualised return | 10.77% |
| Total return since inception | 235.56% |
| Annualised standard deviation | 6.96% |
| Sharpe ratio (RFR=RBA cash) | 1.01 |
| Percentage of positive months since inception | 71.83% |

### Fund performance



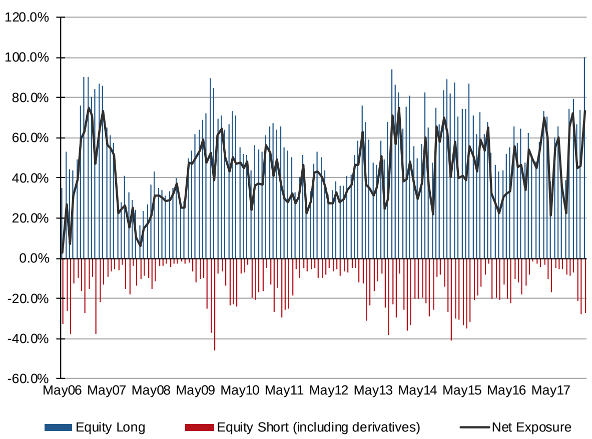

Source: Kardinia Capital

| Timeframe | Fund return | Benchmark | Value added |
|---|---|---|---|
| 1 month | 0.56% | 0.12% | 0.44% |
| 3 months | 1.83% | 0.37% | 1.46% |
| 6 months | 6.13% | 0.75% | 5.38% |
| 1 year | 7.55% | 1.51% | 6.04% |
| 3 years p.a. | 3.74% | 1.75% | 2.00% |
| 5 years p.a. | 6.02% | 2.09% | 3.93% |
| Since inception p.a. | 10.77% | 3.77% | 7.00% |

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.

### Fund in review

#### Portfolio exposure analysis




| Largest holdings | Sector | % |
|---|---|---|
| ANZ | Financials | 8.2% |
| Westpac | Financials | 8.1% |
| CSL | Health Care | 5.4% |
| Qantas | Industrials | 4.2% |
| Macquarie Group | Financials | 4.1% |
| Boral | Materials | 4.0% |
| Independence Group | Materials | 3.3% |
| Aristocrat Leisure | Consumer Discr. | 3.2% |
| Computershare | Info Tech | 3.2% |

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### Market and fund commentary

The Australian market was volatile in February, trading down 5% mid-month before recovering to end the month modestly higher (S&P/ASX 300 Accumulation Index +0.34%). The Australian index outperformed its global peers, which fell heavily and then recovered but still ended solidly down (S&P500 -3.7%, FTSE 100 -3.4%, MSCI Asia ex Japan -4.3%).

There were two key drivers of the market in February. Firstly, signs of rising inflation led to higher US bond yields and a volatility-driven selloff in global equities as investors exposed to inverse volatility products suffered significant losses. Secondly, the February profit reporting season in Australia was a reasonable one, with more beats than misses and modest upgrades to average earnings.

Economic data was mixed in Australia and China but strong in the Eurozone and US. The key data point for the month was the stronger than expected US average hourly earnings, which rose to a post-GFC high of +2.9% year on year and triggered a rise in US 10-year bond yields to nearly 3%.

Oil was weaker (Brent -6% to US$64.62/bbl) but bulk commodities were generally stronger (iron ore +8% to US$78.90/t, met coal +7% to US$234/t, thermal coal down 2% to US$104/t). Base metals were mixed (aluminium -4%, copper -3%, nickel +1%, zinc -3%) while gold fell 2% to US$1,318/oz. The AUD/USD fell 4% to US$0.776.

The best sectors for the month were Health Care (+7.0%), Consumer Staples (+2.2%) and Financials ex REITs (+0.7%), while Telcos (-6.0%), Energy (-3.7%) and REITs (-3.3%) lagged.

The Bennelong Kardinia Absolute Return Fund returned 0.56% in January. Most of the key positions in the Kardinia portfolio reported solid results during the February reporting season.

Nine Entertainment (+61bp contribution for the month) was up 36% after reporting an interim result above market expectations and raising profit guidance on the back of a return to growth in the TV ad market, strong market share gains and a growing digital contribution. CSL (+54bp) continues to beat expectations, reporting net profit growth of 31% driven by a maiden profit from its Seqirus flu business and continued momentum in plasma product sales, particularly the high margin specialty products. Bellamy's (+47bp) was up 22% after it upgraded profit guidance. Qantas (+43bp) reported a record profit before tax and announced an additional $378m on-market share buyback as it benefited from a rational domestic market that saw domestic EBIT up 20%. Costa Group (+40bp) again delivered a strong result and increased profit guidance driven by citrus and avocado sales. Other good results from companies owned by the fund included Seven Group (+37bp), Service Stream (+23bp) and Computershare (+18bp). Individual short positions in telco and consumer staples stocks also contributed solidly for the month.

BWX (-65bp contribution for the month) reported solid growth in 1H18 (EPS +20%), but the result and outlook were below market expectations as the company integrated recent acquisitions. Star Entertainment (-57bp) saw a recovery in international VIP turnover and Gold Coast revenues, but a softer than expected 2H18 start in Sydney. Whitehaven Coal (-34bp) reported a record interim profit and is nearly debt free, but the result was below consensus expectations due to cost escalation at its Narrabri mine. Other negative contributors included Westpac (-23bp), CYBG (-18bp) and South32 (-18bp).

Net equity market exposure (including derivatives) was increased from 46.0% to 73.2% (100.3% long and 27.1% short) as we added new positions in ANZ, BHP, Bluescope Steel, Nine Entertainment, Origin Energy and Westpac; increased weightings in Computershare and CSL; and bought back part of 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% | 0.56% | | | | | | | | | | | 0.39% |
| 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. | |
| AON | 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 10.77%; annualised compound benchmark return is 3.77%.
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.