

Bennelong Kardinia Absolute Return Fund

Monthly performance report

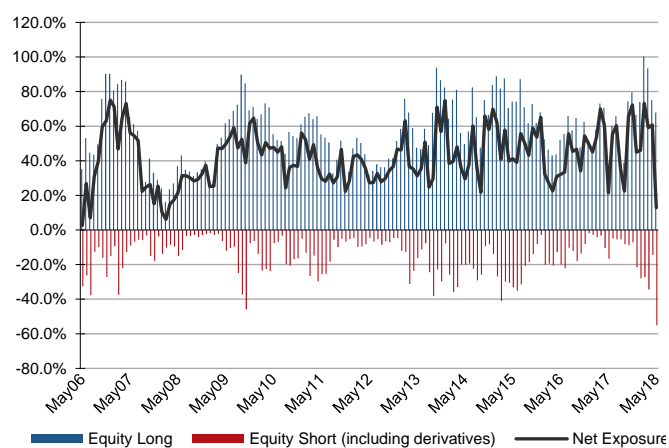
As at 31 May 2018

Fund at a glance

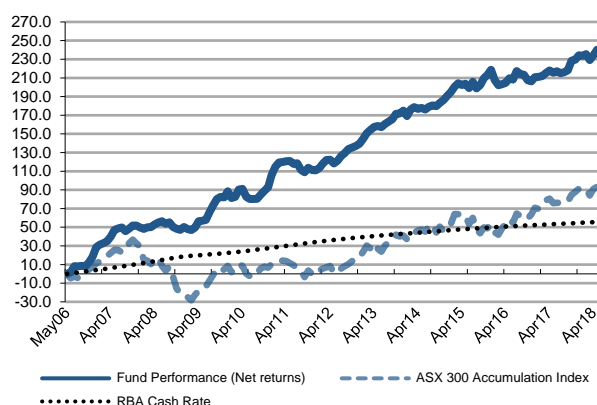
Fund facts	
Strategy	Long-short Australian equity
Process	Fundamental stock selection based on analysis of the macroeconomic environment, company and operating environment, quality of management and valuation
Objective	To achieve double digit annual rates of return through an investment cycle, with an overarching philosophy of capital protection
FUM	AUD 197.3 million
Inception date	1 May 2006
Unit price: daily series	1.2194
Unit price: monthly series	1.4391
Fund managers	Mark Burgess, CFA® Kristiaan Rehder, CFA®
Annualised return	10.67%
Total return since inception	240.25%
Annualised standard deviation	6.94%
Sharpe ratio (RFR=RBA cash)	1.00
Percentage of positive months since inception	71.72%

Fund in review

Portfolio exposure analysis



Fund performance



Source: Kardinia Capital

Timeframe	Fund return	Benchmark	Value added
1 month	1.78%	0.13%	1.65%
3 months	1.40%	0.38%	1.02%
6 months	3.25%	0.75%	2.50%
1 year	7.79%	1.51%	6.28%
3 years p.a.	3.86%	1.69%	2.17%
5 years p.a.	5.65%	2.01%	3.63%
Since inception p.a.	10.67%	3.72%	6.94%

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	%
CSL	Health Care	5.1%
Macquarie Group	Financials	4.1%
Qantas	Industrials	4.0%
Rio Tinto	Materials	3.9%
Seven Group	Industrials	3.4%
Orora	Materials	3.2%
Aristocrat Leisure	Consumer Discr.	3.1%
CYBG PLC	Financials	3.0%
Whitehaven Coal	Energy	2.9%

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Market and fund commentary

The Australian market was higher in May (S&P/ASX300 Accumulation Index +1.19%), driven by Health Care, Materials and small cap stocks.

The Australian index underperformed US and UK markets (S&P500 +2.4%, FTSE 100 +2.8%), but outperformed Asian and European equities (MSCI Asia ex Japan -0.8%, Euro Stoxx 50 -2.5%).

Economic data was mixed in Australia (dwelling price growth slowed to 0.2% year on year and retail sales were weaker than expected, but NAB business conditions increased to a new record). The key economic news for the Australian market in May was the release of the Federal Budget, which focused on infrastructure projects and delivered tax relief for low and middle income earners. US and Chinese economic data was mixed, while European data weakened from very strong levels.

Several macro events occurred during the month, including a continuation of the US-China trade dispute, the withdrawal of the US from the Iran nuclear deal and political events in Italy leading some in the market to ponder the potential for Italy to leave the European Union (causing Italian bonds to suffer their worst day in 25 years).

Oil was stronger (Brent +4% to US\$77.77/bbl), while bulk commodities were mixed (iron ore -2% to US\$64/t, met coal +5% to US\$189/t, thermal coal +10% to US\$112/t). Base metals were also mixed (aluminium +3%, copper +1%, nickel +11%, zinc -2%) while gold fell 1% to US\$1,303/oz. The AUD/USD rose 0.5% to US\$0.757.

The best sectors for the month were Health Care (+5.6%), Consumer Discretionary (+5.1%) and REITs (+3.1%), while Telcos (-10.2%), Consumer Staples (-0.4%) and Financials ex REITs (-0.2%) lagged.

The Bennelong Kardinia Absolute Return Fund returned 1.78% in May.

Emeco (+46 basis points contribution for the month) was the biggest individual stock contributor, driven by the acquisition of Matilda Equipment and improving equipment rental market conditions, a factor that also

drove Seven Group (+26bp). Qantas (+43bp) provided a solid trading update with positive market conditions, capacity discipline and an ongoing share buyback supporting the share price despite the rise in the oil price. CSL (+37bp) raised its profit guidance by ~8%, driven by higher than expected sales of new products Idelvion & Haegarda and a better than expected performance from the Seqirus flu business. Whitehaven (+35bp) benefited from rising coal prices that are delivering strong cash flows. Aristocrat (+32bp) delivered a very strong interim profit result, with earnings per share up 33% driven by strong performance from recent social gaming acquisitions (Big Fish, Plarium) and robust growth in the Americas. Netwealth (+32bp) rose following the potential for its independent investment platform to benefit from the disclosures of poor behaviour from non-independent advisers made at the Royal Commission.

RCR Tomlinson (-36 basis point contribution for the month) was the biggest detractor for the month, as the market grew concerned about whether the company's preferred pipeline of work would convert into the order book in a timely fashion. CYBG (-24bp) fell after reporting a soft interim result as a result of intense competition in the UK mortgage market. CYBG also confirmed it had made a scrip takeover bid for Virgin Money. Bellamy's (-21bp) fell after competitor A2 Milk provided a weaker than expected trading update, driven by a transition to new infant formula packaging and higher marketing costs in the US and China. Ausdrill (-20bp) gave up some gains despite its African underground mining services JV announcing a contract win. Independence Group (-16bp) fell after reporting a softer than expected production result at its Nova nickel mine.

The short book made a positive contribution for the month, driven by a short position in Share Price Index Futures (+26bp) and individual shorts in the retail, telco, banks and healthcare sectors.

Net equity market exposure (including derivatives) was reduced from 60.7% to 12.9% (68.0% long and 55.1% short), with the addition of Kidman Resources and Reece more than offset by the sale of Bellamy's, Boral, Star Entertainment and Santos, as well as five new individual stock shorts and an increase in our short position in SPI Futures contracts.

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Fund performance

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2018	-0.16%	0.56%	-1.90%	1.56%	1.78%								1.80%
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%

How to invest

The Fund is open to investors directly via the PDS (available at kardiniacapital.com.au), or a range of platforms.

Contact details

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

Platforms

AMP: Elements Investment, Elements Pension, My North, North, Portfolio Care, Portfolio Care eWrap, PPS, Weathview eWrap Inv

AON Hub 24: Super, IDPS

Asgard: Master Trust, eWrap, Employee Super, Infinity IOOF: SuperWrap

BT: Wrap, Super Wrap, Panorama, Assemble Macquarie Wrap: IDPS, Super, Accumulator

CFS: FirstWrap, IX Netwealth: Super Service, Wrap Service

Credit Suisse Oasis: Wealthtrac, Dominion

Federation Powerwrap: Super, Pension, Smartwrap

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. A complete and detailed list of performance results including a presentation is available upon request.
6. 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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