

Bennelong Kardinia Absolute Return Fund

Monthly performance report

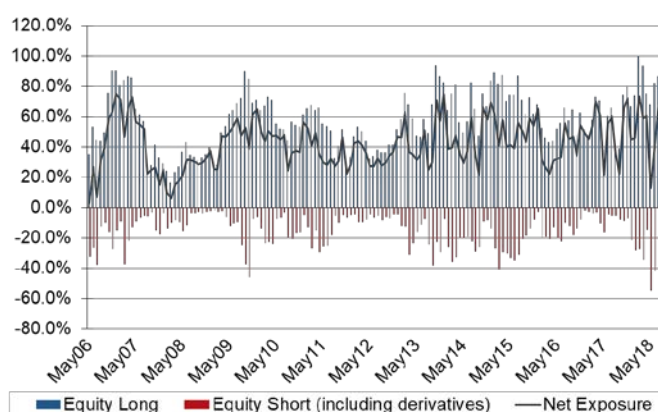
As at 31 July 2018

Fund at a glance

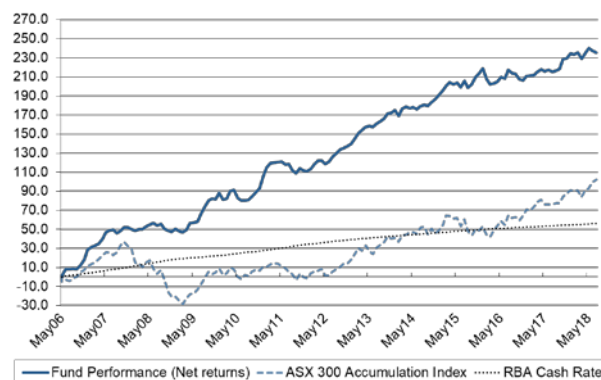
| Fund facts | |
|---|--|
| Strategy | Long-short Australian equity |
| Process | Fundamental stock selection based on analysis of the macroeconomic environment, company and operating environment, quality of management and valuation |
| Objective | To achieve double digit annual rates of return through an investment cycle, with an overarching philosophy of capital protection |
| FUM | AUD 192.6 million |
| Inception date | 1 May 2006 |
| Unit price: daily series | 1.1927 ex distribution |
| Unit price: monthly series | 1.4075 ex distribution |
| Fund managers | Mark Burgess, CFA® Kristiaan Rehder, CFA® |
| Annualised return | 10.38% |
| Total return since inception | 235.34% |
| Annualised standard deviation | 6.92% |
| Sharpe ratio (RFR=RBA cash) | 0.97 |
| Percentage of positive months since inception | 70.75% |

Fund in review

Portfolio exposure analysis



Fund performance



Source: Kardinia Capital

| Timeframe | Fund return | Benchmark | Value added |
|----------------------|-------------|-----------|-------------|
| 1 month | (0.68%) | 0.13% | (0.81%) |
| 3 months | 0.31% | 0.38% | (0.07%) |
| 6 months | 0.49% | 0.75% | (0.25%) |
| 1 year | 6.42% | 1.51% | 4.91% |
| 3 years p.a. | 3.13% | 1.66% | 1.47% |
| 5 years p.a. | 5.16% | 1.97% | 3.19% |
| Since inception p.a. | 10.38% | 3.69% | 6.69% |

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 | 7.5% |
| NAB | Financials | 6.2% |
| Macquarie Group | Financials | 4.6% |
| Aristocrat Leisure | Consumer Discr. | 4.1% |
| CSL | Health Care | 4.0% |
| Rio Tinto | Materials | 3.6% |
| Origin Energy | Energy | 3.5% |
| CYBG | Financials | 3.1% |
| Orora | Materials | 3.0% |

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Market and fund commentary

The Australian equity market was solid in July (S&P/ASX300 Accumulation Index +1.31%), driven by Industrials, Consumer Discretionary, Health Care and a rebound in Telco stocks.

The local index generally underperformed global markets (S&P500 +3.7%, FTSE 100 +1.5%, MSCI Asia ex Japan +1.1%, Euro Stoxx 50 +3.9%) on weakness in resources after the United States published a list of US\$200b in Chinese imports that would be subject to a 10% tariff.

Australian economic data was generally upbeat (retail sales and employment were stronger than market expectations and consumer sentiment and business conditions rose) although dwelling prices fell 0.8% year on year. US and Chinese economic data were mixed while European activity indicators remained solid.

Oil was weaker (Brent -6% to US\$74/bbl), while bulk commodities were mixed (met coal -14% to US\$173/t, thermal coal +2% to US\$123/t, iron ore +5% to US\$68/t). Base metals were weak (aluminium -6%, copper -7%, nickel -8%, zinc -11%), while gold fell 2% to US\$1,233/oz. The AUD/USD was flat at US\$0.74.

The best sectors for the month were Telcos (+7.9%), Industrials (+3.5%) and Consumer Discretionary (+2.1%), while Utilities (-1.4%), Consumer Staples (-0.5%) and Materials (-0.1%) lagged.

The Bennelong Kardinia Absolute Return Fund fell 0.68% in July, with resources stocks weighing on performance.

A short position in a consumer staples stock (+49 basis point contribution for the month) was the biggest individual stock contributor, driven by a significant profit downgrade caused by higher input costs and strong competition.

ANZ (+37bp) rallied following its June announcement of a \$1.5b increase to its on-market share buyback to \$3b. Qantas (+23bp) rose 9% for the month, assisted by the fall in the oil price. CYBG (+20bp) continued to rally after its announcement in June that it had agreed terms for a recommended scrip takeover bid for Virgin Money. Aristocrat Leisure (+14bp) rose after social gaming data pointed to strong revenue growth and good market share for the company's social gaming businesses.

The individual stock short book made a positive contribution, with shorts in consumer stocks driving most of the performance.

Independence Group (-40 basis point contribution for the month) was the biggest detractor after a weaker than expected quarterly production report (due to a mill liner failure) and the announcement of a downgrade to reserves at its Nova nickel mine. A short position in Share Price Index Futures (-31bp) was the next largest detractor given the positive market. Nine Entertainment (-27bp) fell 9.7% after announcing an agreement to merge with Fairfax. Nine's offer was made at a 23% premium to Fairfax's one-month volume weighted average share price at the time it was originally announced, with the company forecasting at least \$50m of cost savings to be implemented over two years. Emeco (-19bp) was weaker despite reporting a solid FY18 trading update that demonstrated positive trends in the operating utilisation of its mining equipment and deleveraging of the balance sheet. AGL (-14bp) fell after the release of a report from the ACCC seeking to rein in power prices and limit acquisitions of power generation assets by the majors.

Net equity market exposure (including derivatives) was increased from 40.3% to 67.3% (86.8% long and 19.5% short), with the addition of stocks including NAB, Tabcorp, Viva Energy, Oz Minerals and Reliance Worldwide, and a reduction in our short position in Share Price Index Futures contracts.

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% | -0.77% | -0.68% | | | | | | 0.33% |
| 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, 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 |

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. 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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