

Bennelong Kardinia Absolute Return Fund

Monthly performance report

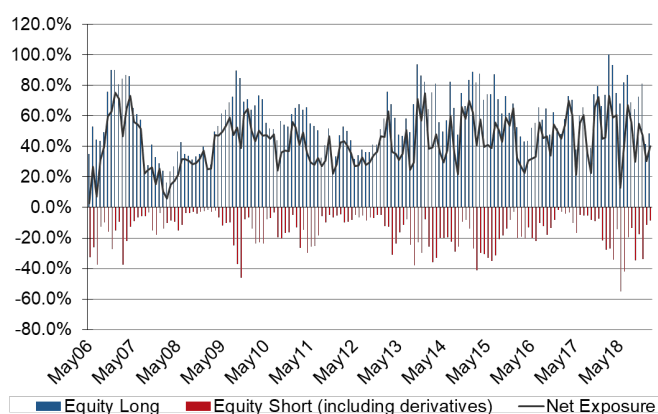
As at 31 January 2019

Fund at a glance

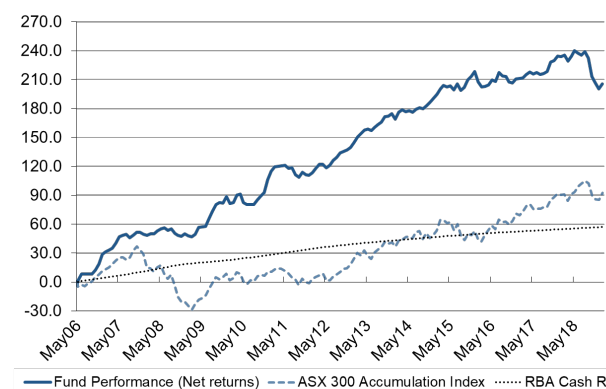
Fund facts	
Strategy	Long-short Australian equity
Process	Fundamental stock selection based on analysis of the macroeconomic environment, company and operating environment, quality of management and valuation
Objective	To achieve returns in excess of 10% per annum through an investment cycle, with an overarching philosophy of capital protection*
FUM	AUD 166.4 million
Inception date	1 May 2006
Unit price: daily series	1.0793 (ex distribution)
Unit price: monthly series	1.2730 (ex distribution)
Fund managers	Mark Burgess, CFA® Kristiaan Rehder, CFA®
Annualised return	9.15%
Total return since inception	205.41%
Annualised standard deviation	7.16%
Sharpe ratio (RFR=RBA cash)	0.77
Percentage of positive months since inception	69.28%

Fund in review

Portfolio exposure analysis



Fund performance



Source: Kardinia Capital

Timeframe	Fund return	Benchmark	Value added
1 month	1.66%	0.13%	1.53%
3 months	(2.56%)	0.38%	(2.94%)
6 months	(8.93%)	0.76%	(9.68%)
1 year	(8.48%)	1.51%	(9.99%)
3 years p.a.	(0.25%)	1.57%	(1.83%)
5 years p.a.	2.57%	1.87%	0.70%
Since inception p.a.	9.15%	3.61%	5.54%

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	4.1%
Macquarie Group	Financials	4.0%
Woolworths	Consumer Staples	3.4%
Transurban	Industrials	3.1%
Tabcorp	Cons. Discr.	3.0%
Rio Tinto	Materials	2.8%
Woodside	Energy	2.6%
Northern Star	Materials	2.1%
BHP	Materials	2.1%
Orora	Materials	2.0%

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Market and fund commentary

January saw a strong rebound in the Australian equity market with the S&P/ASX300 Accumulation Index up 3.87%, although the Australian market underperformed global markets (S&P500 +8.0%, FTSE 100 +3.6%, Euro Stoxx 50 +5.6%, MSCI Asia ex Japan +7.2%).

A big driver of the rebound in global markets was the dovish turn by the US Federal Reserve, which stated that it would be “patient” as it determined future changes to the federal funds rate. Other positive developments were the end to the record 35 day long partial US government shutdown and a 100 basis point cut to the required reserve ratio for Chinese banks. US 10-year Treasury bond yields fell 5bp over the month to 2.63%.

US economic data was mixed but resilient, with the US Federal Reserve downgrading its description of economic growth from “strong” to “solid”. Chinese and European economic data continued to soften during the month. Australian economic data was mixed, with dwelling prices down 5.6% year on year and sharp falls in consumer sentiment and business conditions. Retail sales and employment data were, however, better than expected.

After a 35% fall in the December quarter, the oil price bounced strongly (Brent +13% to US\$61/bbl), while bulk commodities were mixed (iron ore +17% to US\$85/t, met coal -9% to US\$202/t, thermal coal -6% to US\$96/t). Base metals had a good month (aluminium +1%, copper +3%, nickel +17%, zinc +8%), while gold rose for a fourth straight month (+3% to US\$1,326/oz). The AUD/USD rose 3% to US\$0.73.

The best sectors were Energy (+11.5%), Information Technology (+9.3%) and Telcos (+7.8%), while Financials ex REITs (-0.2%), Consumer Staples (+2.8%) and Industrials (+3.1%) lagged.

The Bennelong Kardinia Absolute Return Fund returned 1.66% in January.

Rio Tinto (+26 basis point contribution for the month) was the biggest positive contributor, driven by the strong rally in the iron ore price after supply disruptions caused by the tragic collapse of a tailings dam at Vale’s Feijao iron ore mine. A2 Milk (+21bp) was up 17% after the release of strong NZ infant milk formula export data and several surveys that suggested increasing market share and strong pricing for A2M. These data points imply strong demand from Chinese buyers. Tabcorp (+19bp) rose due to continuing substantial increases in prize pools (25 Powerball/Ozlotto jackpots above \$15m already in FY19 YTD), which is expected to lead to upgrades to lottery revenue growth.

CSL (+17bp) rose after Plasma Protein Therapeutics Association data showed that the growth rate for core

CSL products intravenous immunoglobulin (IVIG) and albumin remains solid, reflecting strength in underlying demand. Evolution Mining (+16bp) had a rare production hiccup with lower production and higher costs due to unplanned shutdowns and mine sequencing, but the stock rose 9% with a supportive gold price.

Netwealth (-13 basis point contribution for the month) was the biggest detractor, falling 5% after reporting 2Q net inflows that were below market expectations. This was caused by a temporary deferral of platform decisions by financial intermediaries due to new pricing announced by platform competitor Panorama, as well as the fallout from the Banking Royal Commission.

Northern Star (-11bp) fell 5% after reporting weaker than expected production and higher costs as the company made a strategic decision to mine lower grade ore given strength in the gold price. Qantas (-9bp) fell 6% following the strong bounce in the oil price and a profit downgrade from Air New Zealand, raising concerns that weakening consumer sentiment was weighing on demand for air travel.

The individual stock short book dragged on performance (-27bp), with shorts in the waste management, IT and packaging sectors the key detractors.

Net equity market exposure was increased from 30.4% to 40.2% (48.7% long and 8.4% short), with the key changes being increased weightings in Macquarie Group, Woodside Petroleum, A2 Milk, Tabcorp, Cleanaway and CSL, and a new position in Independence Group.

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Fund performance

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2019	1.66%												1.66%
2018	-0.16%	0.56%	-1.90%	1.56%	1.78%	-0.77%	-0.68%	1.08%	-1.93%	-5.71%	-2.18%	-2.02%	-10.12%
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%

Contact details

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

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: Portfolio Services

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

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

Credit Suisse Oasis: Wealthtrac, Dominion

Federation Powerwrap: Super, Pension, Smartwrap

* There is no guarantee that this objective will be achieved and it is only an indication of the intended target return.

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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