

Bennelong Kardinia Absolute Return Fund

Monthly performance report

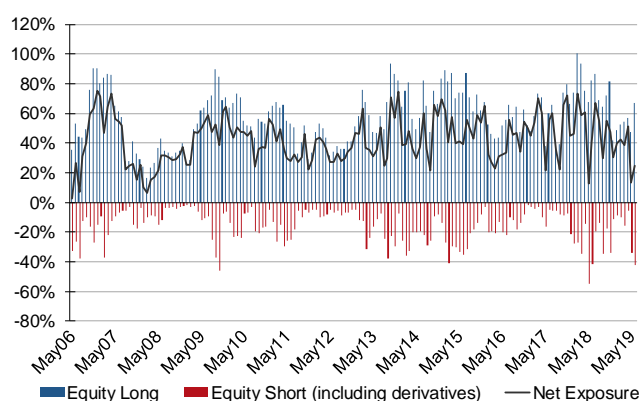
As at 30 June 2019

Fund at a glance

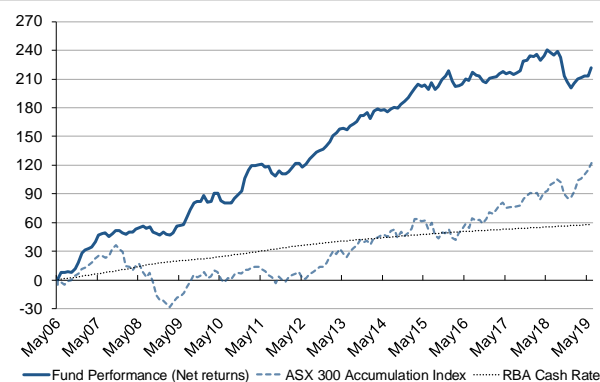
Fund facts	
Strategy	Long-short Australian equity
Process	Fundamental stock selection based on analysis of the macroeconomic environment, company and operating environment, quality of management and valuation
Objective	To achieve returns in excess of 10% per annum through an investment cycle, with an overarching philosophy of capital protection*
FUM	AUD 115.3 million
Inception date	1 May 2006
Unit price: daily series	1.1390 cum distribution
Unit price: monthly series	1.3422 cum distribution
Fund managers	Mark Burgess, CFA® Kristiaan Rehder, CFA®
Annualised return	9.29%
Total return since inception	222.00%
Annualised standard deviation	7.08%
Sharpe ratio (RFR=RBA cash)	0.81
Percentage of positive months since inception	69.62%

Fund in review

Portfolio exposure analysis



Fund performance



Source: Kardinia Capital

Timeframe	Fund return	Benchmark	Value added
1 month	2.82%	0.11%	2.71%
3 months	3.35%	0.36%	2.99%
6 months	7.18%	0.73%	6.45%
1 year	(4.63%)	1.49%	(6.13%)
3 years p.a.	1.47%	1.51%	(0.04%)
5 years p.a.	3.12%	1.78%	1.34%
Since inception p.a.	9.29%	3.54%	5.75%

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	%
Commonwealth Bank	Financials	5.4%
NAB	Financials	4.7%
Telstra	Comm. Services	4.1%
Atlas Arteria	Industrials	3.3%
Northern Star	Materials	3.3%
APA Group	Utilities	3.1%
Chorus	Comm. Services	3.1%
Rio Tinto	Materials	3.1%
Evolution	Materials	2.8%
Goodman Group	Real Estate	2.8%

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As at 30 June 2019

Market and fund commentary

The Australian equity market was up for a sixth straight month in June (S&P/ASX300 Accumulation Index +3.64%) but generally underperformed global markets (S&P500 +7.0%, Euro Stoxx 50 +6.0%, MSCI Asia ex Japan +5.4%, FTSE 100 +4.0%). The gains were driven by heightened speculation that the US Federal Reserve would cut rates in July and hopes of a trade resolution at the G-20 Summit late in the month. Global bonds rallied hard in June, with US 10-year Treasury yields falling 14bp to 2.00% and Australian 10-year bond yields falling 15bp to 1.32%.

The key global macro event for the month was the G-20 Summit in Osaka from 28 to 29 June. US President Donald Trump and Chinese President Xi Jinping agreed upon a trade war ceasefire whilst negotiations continued but the existing 25% tariffs on \$250b of Chinese imports remain.

US economic activity indicators were mixed (manufacturing ISM and non-farm payrolls missed expectations while the unemployment rate was steady at 3.6%). Chinese and European economic data continued to moderate. Australian economic data was generally softer than expected with 1Q GDP growth of +0.4% below market expectations, dwelling prices down 0.2% month on month (to be down 6.9% year on year) and weaker business conditions and consumer sentiment. The unemployment rate remained steady at 5.2%. The Reserve Bank of Australia cut the cash rate by 25bp to a record low of 1.25%.

The oil price bounced (Brent +7% to US\$66/bbl), while bulk commodities were mixed (iron ore +18% to US\$118/t, met coal -5% to US\$195/t, thermal coal -8% to US\$66/t). Base metals were modestly higher (nickel +5%, copper +3%, aluminium +1%, zinc -4%) while gold continued its strong recent run (+8% to US\$1,414/oz) helped by falling yields and lower USD. The AUD/USD rose 1% to US\$0.70.

The best sectors were Materials (+6.4%), Industrials (+5.4%) and REITs (+4.2%) while Consumer Discretionary (-1.5%), Information Technology (+1.0%) and Energy (+2.1%) lagged.

The Bennelong Kardinia Absolute Return Fund returned 2.82% in June driven by gold, financials, bond proxies and healthcare stocks.

Polynovo (+55 basis point contribution for the month) was the biggest positive contributor, driven by increasing market awareness of its biodegradable skin regeneration polymer for severe burns and wounds. The company, which is net cash and operating close to breakeven, has been expanding its sales team globally and expects CE Mark approval in the near term which will enable it to sell its products into Europe and other markets.

Northern Star (+48bp) and Evolution (+28bp) both continued to rally driven by the strong gold price. Goodman Group (+37bp) and Atlas Arteria (+25bp) benefited from falling global bond yields. Rhipe (+31bp) rose 24% after upgrading profit guidance for the third time in FY19, driven largely by Microsoft products Office365, Azure and Dynamics.

The biggest detractor was a short position in Share Price Index Futures (-45 basis points for the month), partly offset by a modest positive contribution from the individual stock short book.

Adairs (-29bp) fell 33% for the month after announcing a sudden deterioration in trading, with like for like sales flat since late May, a material reduction from the 9% like for like sales for the second half up until that point. The company also noted margin pressure in the business. A2 Milk (-12bp) was weaker due to the announcement by China's National Development and Reform Commission of a proposal to target 60% self-sufficiency in the infant formula market.

Dubber (-7bp) offers scalable call recording software to customers via partnerships with telcos and is a new position in the portfolio. The business is 100% cloud-based and derives its competitive advantage from rapid deployment, limited upfront costs and unlimited capacity and storage. Netwealth (-7bp) fell 16% as the market began to focus on the impact of a lower interest rate environment on the company's cash margin as well as the potential for higher regulatory costs going forward.

Net equity market exposure was increased from 13.5% to 24.9% (67.3% long and 42.4% short), with the key changes being new long positions in National Australia Bank and Telstra as well as increased weightings in Commonwealth Bank, Atlas Arteria, Chorus, APA Group, Northern Star and Rio Tinto. This was partly offset by the sale of Tabcorp, Flight Centre, Netwealth and Adairs, four new individual stock shorts and an increase in our short position in Share Price Index Futures.

Bennelong Kardinia Absolute Return Fund

Monthly performance report

As at 30 June 2019

Fund performance

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2019	1.66%	1.55%	0.46%	0.55%	-0.03%	2.82%							7.18%
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%

Asset allocation

Asset Type	Fund
Australian Listed Equities	58.6%
Exchange – traded derivatives	-33.7%
Cash & cash equivalents	75.1%

Liquidity profile

We reasonably expect that the Fund will be able to realise 80% of the Fund's assets, at the value ascribed to those assets in calculating the Fund's net asset value, within 10 business days.

Maturity profile of liabilities

Given the highly liquid nature of the assets the Fund invests in, the Fund expects to be able to realise sufficient assets to meet the maturity profile of its liabilities.

Key service providers

Service	Service provider
Registry	Apex Fund Services (Sydney) Pty Ltd <i>(formerly Custom House Fund Services (Australia) Pty Ltd)</i>
Administrator	Apex Fund Services (Sydney) Pty Ltd <i>(formerly Custom House Fund Services (Australia) Pty Ltd)</i>
Custodian/Prime Broker	UBS Nominees Pty Ltd/UBS AG Australia Branch
Derivative Counterparty	UBS AG Australia Branch
Cash Custodian	RBC Investor Services Trust
Auditor	Deloitte Touche Tohmatsu

Leverage ratio

The Fund is not leveraged.

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	IOOF: Portfolio Services
Asgard: Master Trust, eWrap, Employee Super, Infinity	Macquarie Wrap: IDPS, Super
BT: Wrap, Super Wrap, Assemble	Netwealth: Super Service, Wrap Service, IDPS
CFS: FirstChoice, FirstWrap, IX	Oasis: Dominion
Credit Suisse	Powerwrap: Super, Pension, Smartwrap
Federation	Wealthtrac
Hub 24: Super, IDPS	Wealth O2

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* 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, and the above performance data relates to this strategy. Bennelong Funds Management Ltd (Bennelong) assumed responsibility as replacement trustee on 16 August 2011 – for performance history relating to this date, please contact Client Services on 1800 895 388 (AU) or 0800 442 304 (NZ) or client.services@bennelongfunds.com. 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 Apex Fund Services (Sydney) Pty Ltd (formerly Custom House Fund Services (Australia) Pty Limited).
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.

Disclaimer: This information is issued by Bennelong Funds Management Ltd (ABN 39 111 214 085, AFSL 296806) (BFML) in relation to the Bennelong Kardinia Absolute Return Fund. The information provided is general information only. It does not constitute financial, tax or legal advice or an offer or solicitation to subscribe for units in any fund of which BFML is the Trustee or Responsible Entity (Bennelong Fund). This information has been prepared without taking account of your objectives, financial situation or needs. Before acting on the information or deciding whether to acquire or hold a product, you should consider the appropriateness of the information based on your own objectives, financial situation or needs or consult a professional adviser. You should also consider the relevant Information Memorandum (IM) and or Product Disclosure Statement (PDS) which is available on the BFML website, bennelongfunds.com, or by phoning 1800 895 388 (AU) or 0800 442 304 (NZ). BFML may receive management and or performance fees from the Bennelong Funds, details of which are also set out in the current IM and or PDS. BFML and the Bennelong Funds, their affiliates and associates accept no liability for any inaccurate, incomplete or omitted information of any kind or any losses caused by using this information. All investments carry risks. There can be no assurance that any Bennelong Fund will achieve its targeted rate of return and no guarantee against loss resulting from an investment in any Bennelong Fund. Past fund performance is not indicative of future performance. Information is current as at the date of this report. Kardinia Capital (ABN 20 152 003 186) is a Corporate Authorised Representative of Bennelong Funds Management Ltd (BFML), ABN 39 111 214 085, Australian Financial Services Licence No. 296806.