

Bennelong Kardinia Absolute Return Fund

Monthly performance report

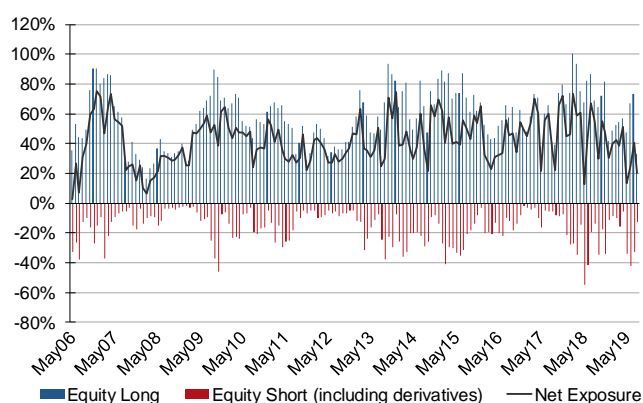
As at 31 August 2019

Fund at a glance

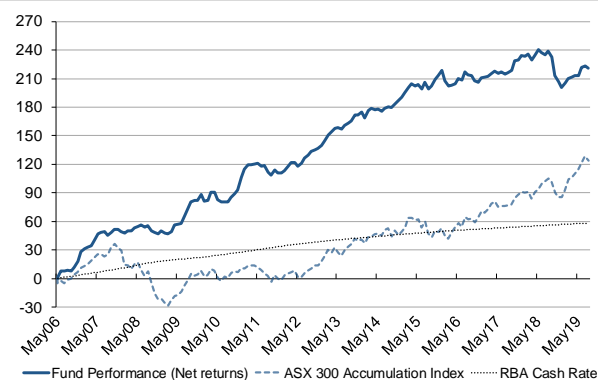
Fund facts	
Strategy	Long-short Australian equity
Process	Fundamental stock selection based on analysis of the macroeconomic environment, company and operating environment, quality of management and valuation
Objective	To achieve returns in excess of 10% per annum through an investment cycle, with an overarching philosophy of capital protection*
FUM	AUD 104.0 million
Inception date	1 May 2006
Unit price: daily series	1.1188
Unit price: monthly series	1.3180
Fund managers	Mark Burgess, CFA® Kristiaan Rehder, CFA®
Annualised return	9.13%
Total return since inception	220.67%
Annualised standard deviation	7.05%
Sharpe ratio (RFR=RBA cash)	0.80
Percentage of positive months since inception	69.38%

Fund in review

Portfolio exposure analysis



Fund performance



Source: Kardinia Capital

Timeframe	Fund return	Benchmark	Value added
1 month	(0.83%)	0.08%	(0.92%)
3 months	2.39%	0.28%	2.11%
6 months	3.40%	0.66%	2.74%
1 year	(5.40%)	1.41%	(6.81%)
3 years p.a.	0.70%	1.48%	(0.78%)
5 years p.a.	2.71%	1.73%	0.98%
Since inception p.a.	9.13%	3.51%	5.63%

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	2.3%
Bendigo & Adelaide	Financials	(2.2%)
CSL	Health Care	2.1%
Charter Hall	Real Estate	2.0%
Atlas Arteria	Industrials	1.9%
APA Group	Utilities	1.9%
Telstra	Comm. Services	1.8%
Aristocrat Leisure	Cons. Discretionary	1.7%
Goodman Group	Real Estate	1.4%
Evolution Mining	Materials	1.3%

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Market and fund commentary

The Australian equity market suffered its first monthly fall for the calendar year with the S&P/ASX300 Accumulation Index down 2.27%. Global markets were also down (FTSE 100 -4.1%, MSCI Asia ex Japan -3.3%, S&P500 -1.6%, Euro Stoxx 50 -1.1%). This was driven by an escalation in the US/China trade war (with both countries raising tariffs), ongoing anti-extradition bill protests in Hong Kong and Brexit concerns.

The Australian profit reporting season was also in focus. Results were generally weak with more misses than beats and soft profit guidance leading to broad-based downgrades to FY20 earnings forecasts. On the positive side, cash flows were generally solid and dividends surprised to the upside.

US economic activity indicators were mixed (manufacturing and non-manufacturing ISM both missed, non-farm payrolls were in line while average hourly earnings beat). Chinese economic data was mixed (trade surplus beat but manufacturing PMI missed) while activity indicators in Europe (PMI's) picked up. Australian economic data was generally solid, with monthly activity data (retail sales, employment) better than expected and a bounce in consumer confidence. House prices rose strongly in August (+0.8% month on month) driven by gains in Sydney and Melbourne.

Commodities prices were hit hard by trade tensions and global growth concerns. The oil price fell sharply (Brent -8% to US\$59/bbl), while bulk commodities were significantly weaker (iron ore -27% to US\$86/t, met coal -6% to US\$157/t, thermal coal -8% to US\$60/t). Base metals also fell (copper -4%, aluminium -4%, zinc -7%) except for nickel (+24%) which spiked following a decision by Indonesia to bring forward a ban on the export of nickel ore from January 2022 to December 2019. Gold rose strongly (+7% to US\$1,529/oz) helped by falling bond yields and continued global uncertainty. The AUD/USD fell 1.6% to US\$0.67.

The best sectors were Health Care (+3.6%), REITs (+1.2%) and Information Technology (+0.2%) while Materials (-7.5%), Energy (-5.6%) and Communication Services (-3.1%) lagged.

The Bennelong Kardinia Absolute Return Fund fell 0.83% in August. The Fund's low net market exposure, stop loss discipline and a high success rate during reporting season led to +1.44% outperformance over the ASX300 Accumulation Index. At its worst point during the month, the market was down 6.03% versus Kardinia down 1.27% demonstrating the Fund's overarching philosophy of capital protection.

The Kardinia portfolio had a good success rate in reporting season with 39 out of 42 stocks owned by the Fund either beating or meeting expectations.

A short position in Share Price Index Futures (+98 basis point contribution for the month) was the biggest positive contributor. The individual short book also made a positive contribution with shorts in financial services stocks the key driver.

Charter Hall (+23bp) reported a strong result with earnings per share up 25.5% underpinned by 31% growth in funds under management to \$30.4b. FUM has since grown to \$34.6b and the company has issued guidance for FY20 EPS growth of 18-20%.

City Chic (+17bp), which sells plus size women's fashion, reported EBITDA growth of 25% which was at the top end of guidance. This was driven by strong comparable sales growth of 12.2% and online sales growth of 36%. Online sales are the company's fastest growing and highest margin sales channel and now represent 44% of total sales.

West African Resources (+14bp), Ramelius Resources (+10bp) and Evolution (+8bp) all benefited from the strong gold price.

A2 Milk (-30 basis point contribution for the month) was the biggest detractor after reporting a solid profit result but materially weaker guidance driven by higher marketing costs and a slower path to breakeven for the US business. Cleanaway (-26bp) reported earnings per share growth of 30% but this was a slight miss to market expectations and the company tempered expectations for FY20 due to lower volume growth in July/August and higher sorting costs as a result of the China National Sword policy.

Rio Tinto (-22bp) reported a profit result in line with expectations with a 62cps special dividend however the stock fell in line with the significant fall in the iron ore price. Rhiper (-19bp), a reseller of cloud software services, reported a strong result (operating profit +65%) in line with recent guidance. The company also announced a joint venture with Japanese Business Systems. The JV is to be owned 80% by RHP and anticipates being appointed as a Microsoft Cloud Solution Provider for the Japanese market in 2Q20. The stock was weaker as the market had expected an upgrade to FY20 guidance however we believe current guidance is conservative.

Net equity market exposure was decreased from 40.5% to 20.3% (33.1% long and 12.8% short), with the key changes being the sale of Commonwealth Bank, Chorus and A2 Milk, lower weightings in Westpac, Macquarie Group, Rio Tinto and CSL, partially offset by a reduction in our short position in Share Price Index Futures contracts.

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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%	0.42%	-0.83%					6.74%
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 IOOF: Portfolio Services

Asgard: Master Trust, eWrap, Macquarie Wrap: IDPS, Employee Super, Infinity Super

BT: Wrap, Super Wrap, Netwealth: Super Service, Assemble Wrap Service, IDPS

CFS: FirstChoice, FirstWrap, IX Oasis: Dominion

Credit Suisse Powerwrap: Super, Pension, Smartwrap

Federation Wealthtrac

Hub 24: Super, IDPS Wealth O2

* 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 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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