

Bennelong Kardinia Absolute Return Fund

Monthly performance report

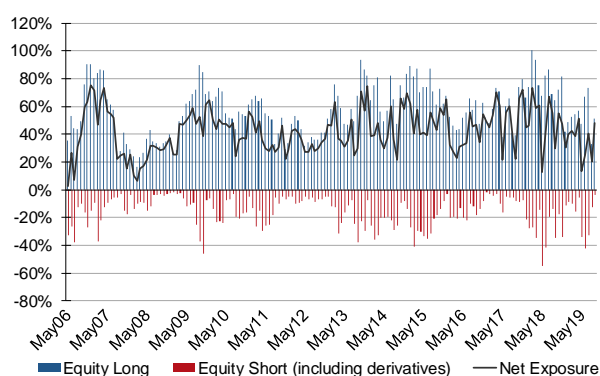
As at 30 September 2019

Fund at a glance

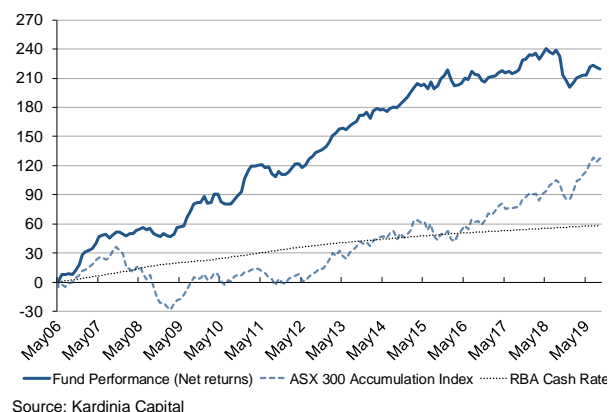
Fund facts	
Strategy	Long-short Australian equity
Process	Fundamental stock selection based on analysis of the macroeconomic environment, company and operating environment, quality of management and valuation
Objective	To achieve returns in excess of 10% per annum through an investment cycle, with an overarching philosophy of capital protection*
FUM	AUD 95.6 million
Inception date	1 May 2006
Unit price: daily series	1.1150
Unit price: monthly series	1.3134
Fund managers	Mark Burgess, CFA® Kristiaan Rehder, CFA®
Annualised return	9.04%
Total return since inception	219.54%
Annualised standard deviation	7.03%
Sharpe ratio (RFR=RBA cash)	0.79
Percentage of positive months since inception	68.94%

Fund in review

Portfolio exposure analysis



Fund performance



Timeframe	Fund return	Benchmark	Value added
1 month	(0.35%)	0.08%	(0.44%)
3 months	(0.77%)	0.25%	(1.02%)
6 months	2.56%	0.61%	1.95%
1 year	(3.88%)	1.37%	(5.25%)
3 years p.a.	0.65%	1.46%	(0.81%)
5 years p.a.	2.70%	1.70%	0.99%
Since inception p.a.	9.04%	3.49%	5.55%

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	%
Boral	Materials	3.1%
Macquarie Group	Financials	2.7%
Aristocrat Leisure	Cons. Discretionary	2.7%
James Hardie	Materials	2.3%
CSL	Health Care	2.2%
Charter Hall	Real Estate	2.1%
Goodman Group	Real Estate	2.1%
Rio Tinto	Materials	2.0%
Lifestyle Communities	Real Estate	1.7%
Corporate Travel	Cons. Discretionary	1.6%

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Market and fund commentary

The Australian equity market rallied in September with the S&P/ASX300 Accumulation Index up 1.91%. Global markets were also up (Euro Stoxx 50 +4.3%, FTSE 100 +3.2%, S&P500 +1.9%, MSCI Asia ex Japan +1.3%). This was driven by increasingly dovish central banks, with the RBA, US Federal Reserve and European Central Bank all announcing rate cuts either during the month or shortly after.

US economic activity indicators were mixed (manufacturing ISM and non-farm payrolls missed while average hourly earnings beat). Chinese economic data was weaker (trade surplus and September manufacturing PMI missed) while European activity indicators moderated. Australian economic data was mixed with house prices rising strongly in September (+0.9% month on month) driven by gains in Sydney and Melbourne but 2Q GDP softening to +1.4% year on year. The 2Q current account surplus of \$5.8b was the first surplus since 1975. Monthly activity data was mixed (retail sales missed, employment beat). The unemployment rate increased slightly to 5.3% and the RBA announced a cut in the cash rate to 0.75% shortly after month end.

The oil price rose nearly 15% mid-month after a drone attack on two key Saudi oil processing facilities took out more than half of Saudi Arabia's total oil production, however the price closed the month flat (Brent US\$59/bbl) as production came back on line. Bulk commodities were mixed (iron ore +9% to US\$93/t, met coal -10% to US\$141/t, thermal coal +7% to US\$64/t) as were base metals (zinc +6%, copper +1%, aluminium +1%, nickel -2%). Gold fell 3% to US\$1,478/oz after bond yields rose sharply in the first half of the month. The AUD/USD was flat at US\$0.67.

The best sectors were Energy (+4.7%), Financials (+4.1%) and Materials (+3.1%) while Communication Services (-2.9%), REITs (-2.7%) and Health Care (-2.5%) lagged.

The Bennelong Kardinia Absolute Return Fund fell 0.35% in September, with the short book dragging on performance.

Paradigm Biopharmaceuticals (+25 basis point contribution for the month) was the biggest positive contributor. Paradigm is repurposing the drug pentosan polysulphate sodium for the treatment of inflammation. The company has conducted two successful phase 2 trials in osteoarthritis and Ross River virus and is well funded with \$78m cash.

City Chic (+21bp), which sells plus size women's fashion, continued to perform strongly after reporting a strong profit result last month (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.

Westpac (+19bp) was up 5% after house prices rose strongly in September despite speculation that the company would cut the dividend at its upcoming full year result. James Hardie (+19bp) rose 10% on the back of strong new US home sales data and continued falls in pulp input costs. Analyst feedback from the company's US investor tour was also positive with respect to primary demand growth momentum, cost savings and the Fermacell acquisition.

Nickel Mines (+17bp) rose 25% after an operational update showed the ramp up of both the Hengjaya Nickel and Ranger Nickel lines exceeded nameplate capacity by 30% within a few months of startup. In addition, cost data is tracking below analyst expectations and the nickel price remains high due to the acceleration of the Indonesian nickel ore export ban. Independence Group (+17bp) was up 18% as analysts upgraded earnings forecasts due to the strong nickel price.

The individual short book (-44 basis point contribution for the month) was the biggest detractor, with Bellamy's the subject of a takeover bid and shorts in technology, oil and gold stocks impacting performance.

Appen (-16bp) fell 18% amid a broader derating of technology stocks. There was also some concern over the performance of the Figure 8 acquisition and a law change in California that could mean APX's contractors are treated as employees.

Evolution (-15bp) fell in line with the weaker gold price. Atlas Arteria (-14bp) and Charter Hall (-14bp) were impacted by the spike in bond yields early in the month.

Net equity market exposure was increased from 20.3% to 47.9% (51.5% long and 3.6% short), with the key changes being new positions in Boral, Corporate Travel, Cleanaway and Woodside Petroleum, increased weightings in Macquarie Group, James Hardie and Aristocrat, the closure of our short position in Share Price Index Futures, partially offset by the sale of Westpac and Telstra.

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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%	-0.35%				6.36%
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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