

Bennelong Kardinia Absolute Return Fund

Monthly performance report

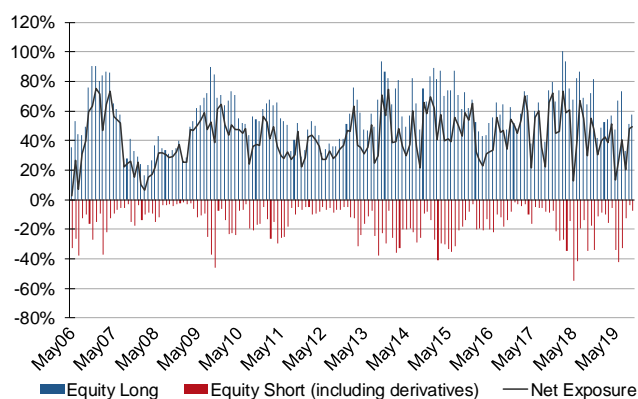
As at 31 October 2019

Fund at a glance

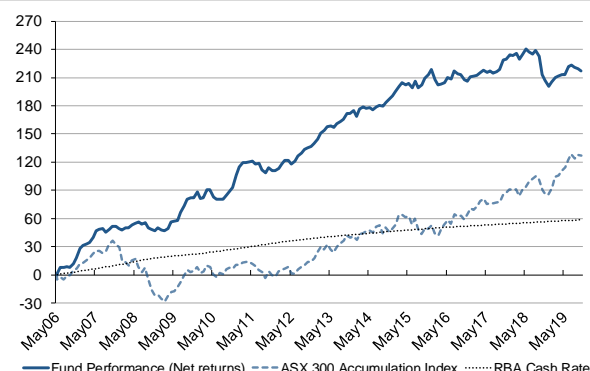
Fund facts	
Strategy	Long-short Australian equity
Process	Fundamental stock selection based on analysis of the macroeconomic environment, company and operating environment, quality of management and valuation
Objective	To achieve returns in excess of 10% per annum through an investment cycle, with an overarching philosophy of capital protection*
Strategy FUM	AUD 149.2 million
Inception date	1 May 2006
Unit price: daily series	1.1070
Unit price: monthly series	1.3038
Fund managers	Mark Burgess, CFA® Kristiaan Rehder, CFA®
Annualised return	8.93%
Total return since inception	217.20%
Annualised standard deviation	7.02%
Sharpe ratio (RFR=RBA cash)	0.78
Percentage of positive months since inception	68.52%

Fund in review

Portfolio exposure analysis



Fund performance



Source: Kardinia Capital

Timeframe	Fund return	Benchmark	Value added
1 month	(0.73%)	0.06%	(0.80%)
3 months	(1.91%)	0.23%	(2.14%)
6 months	1.26%	0.55%	0.70%
1 year	1.20%	1.30%	(0.10%)
3 years p.a.	1.03%	1.44%	(0.41%)
5 years p.a.	2.30%	1.67%	0.62%
Since inception p.a.	8.93%	3.47%	5.45%

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	%
National Australia Bank	Financials	5.1%
CSL	Health Care	4.0%
Rio Tinto	Materials	3.5%
Goodman Group	Real Estate	2.7%
Atlas Arteria	Industrials	2.1%
Macquarie Group	Financials	2.1%
James Hardie	Materials	2.1%
Lifestyle Communities	Real Estate	2.0%
Charter Hall	Real Estate	2.0%
City Chic	Cons. Discretionary	1.9%

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Market and fund commentary

The Australian equity market was softer in October with the S&P/ASX300 Accumulation Index down 0.38%, underperforming global markets (MSCI Asia ex Japan +3.7%, S&P500 +2.2%, Euro Stoxx 50 +1.1%, FTSE 100 -1.9%). Newsflow during the month saw reserve bank rate cuts, a delay to Brexit and a tentative US/China trade deal.

During the month, the Reserve Bank of Australia cut the cash rate by 25bp for the third time this year to 0.75% and maintained an easing bias. The US Federal Reserve cut rates by 25bp for the third meeting in a row to 1.50-1.75%. The European Union agreed to a Brexit extension to 31 January 2020 and the UK will hold an early general election on 12 December 2019. US President Donald Trump announced that China and the US had reached a tentative agreement for a partial trade deal, with the US suspending some tariffs and China agreeing to buy more US farm products, however China did not confirm that a deal had been reached.

US economic data was generally soft (manufacturing ISM, non-farm payrolls and average hourly earnings all missed expectations), while Chinese and European data was mixed. Australian house prices continued to rise strongly in October (+1.2% month on month) driven again by gains in Sydney and Melbourne. 3Q CPI rose 1.7% year on year, below the RBA's 2-3% target band. Employment data was in line with the unemployment rate falling to 5.2% (consensus 5.3%).

The oil price fell slightly (Brent -1% to US\$59/bbl). Bulk commodities were mixed (iron ore -10% to US\$84/t, met coal +3% to US\$146/t, thermal coal -1% to US\$63/t) as were base metals (zinc +7%, copper +2%, aluminium flat, nickel -4%). Gold rose 3% to US\$1,515/oz. The AUD/USD rose 2% to US\$0.69.

The best sectors were Health Care (+7.6%), Industrials (+3.0%) and Utilities (+1.4%) while Information Technology (-3.9%), Financials (-2.8%) and Consumer Staples (-2.2%) lagged.

The Bennelong Kardinia Absolute Return Fund fell 0.73% in October, with gold stocks dragging on performance.

CSL (+24 basis point contribution for the month) was the biggest positive contributor. The stock rose 10% after competitors flagged very strong IG demand and supply constraints. The company also reaffirmed guidance at its AGM for constant currency net profit growth of 7-10%.

Lifestyle Communities (+20bp), which provides affordable housing for over 50's, rose 11% on little newsflow. Rising house prices improves the outlook for settlements.

City Chic (+17bp), which sells plus size women's fashion, rose 12% after announcing the acquisition of Avenue Stores, a US-based specialty retailer for US\$16.5m. This was on the back of a strong profit result in August driven by strong comparable sales growth of 12.2% and online sales growth of 36%.

Imdex (+11bp), which provides mining technology solutions to the mining and energy sectors, rose 14% after announcing record quarterly revenue in 1Q20 driven by an increase in drilling activity globally. The company is net cash and is commercialising new drilling productivity technologies in FY20 that generate 3-5x more revenue than traditional drilling tools.

Rhipe (+10bp) rose 9% after announcing that its Japanese joint venture had been appointed by Microsoft Japan as an indirect cloud solutions provider. The company also reiterated its FY20 profit guidance.

The individual short book (+12bp) made a positive contribution driven by shorts in technology and resources stocks.

Cleanaway (-17bp) was the biggest detractor. The stock fell 5% after a disappointing profit update at its AGM. The company expects 1H20 earnings to be flat on pcp with a pickup in 2H20. The company is being impacted by lower economic activity, softness in commodity prices and lower Queensland landfill volumes following the introduction of a landfill levy.

Northern Star (-16bp) and Evolution (-12bp) both fell despite the rise in the gold price after reporting weaker than expected quarterly production and higher costs. Northern Star was impacted by ongoing ramp up issues at its Pogo mine as it switches mining methods while Evolution was impacted by pit wall instability at its Mt Rawdon mine.

Boral (-12bp) fell early in the month after weak Australian building approvals data. Nickel Mines (-9bp) gave back some of last month's gains after its quarterly report disclosed very strong operational performance from both the Hengjaya Nickel and Ranger Nickel lines (over 30% above nameplate capacity within a few months of startup) but nickel payability was below market expectations.

Net equity market exposure was increased from 47.9% to 49.6% (57.4% long and 7.8% short), with the key changes being new positions in National Australia Bank, EML Payments, Pointsbet, Nanosonics and Imdex, increased weightings in CSL and Rio Tinto, partially offset by the sale of Boral, Corporate Travel, Cleanaway and Worley.

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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%	-0.73%			5.58%
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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