

Bennelong Kardinia Absolute Return Fund

Monthly performance report

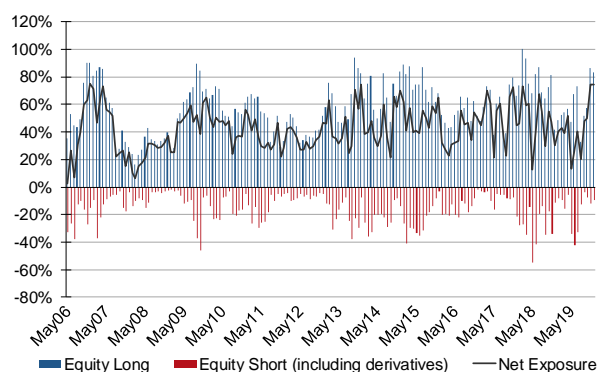
As at 31 December 2019

Fund at a glance

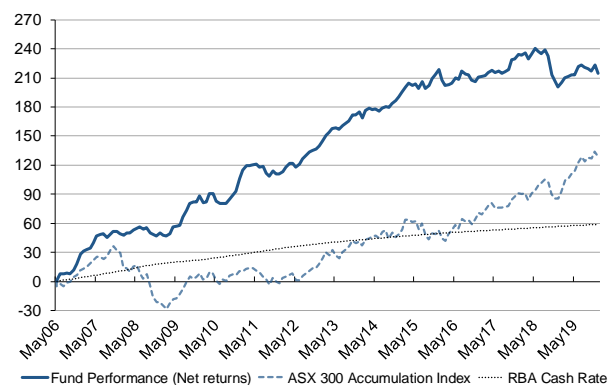
Fund facts	
Strategy	Long-short Australian equity
Process	Fundamental stock selection based on analysis of the macroeconomic environment, company and operating environment, quality of management and valuation
Objective	To achieve consistent positive returns through an investment cycle, with an overarching philosophy of capital protection
Strategy FUM	AUD 130.0 million
Inception date	1 May 2006
Unit price: daily series	1.0979 (cum-distribution)
Unit price: monthly series	1.2926 (cum-distribution)
Fund managers	Mark Burgess, CFA® Kristiaan Rehder, CFA®
Annualised return	8.74%
Total return since inception	214.48%
Annualised standard deviation	7.05%
Sharpe ratio (RFR=RBA cash)	0.75
Percentage of positive months since inception	68.29%

Fund in review

Portfolio exposure analysis



Fund performance



Source: Kardinia Capital

From 2 December 2019, the fee structure for the Bennelong Kardinia Absolute Return Fund has changed with the base management fee reduced from 1.5375% (including GST net of reduced input tax credits) of Net Asset Value to 1.2875% (including GST net of reduced input tax credits) of Net Asset Value and the performance fee hurdle increased from the daily official RBA cash rate to the daily official RBA cash rate plus 2.00%. Going forward, we will report the Fund's absolute return and the performance fee hurdle as per the following table.

Timeframe	Fund return	RBA Cash Rate + 2% (Perf Fee hurdle)*
1 month	(2.84%)	0.23%
6 months	(2.34%)	0.61%
1 year	4.68%	1.34%
3 years p.a.	0.39%	1.45%
5 years p.a.	1.58%	1.65%
Since inception p.a.	8.74%	3.45%

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 inception date of the Fund is 1 May 2006.

*The Performance Fee Hurdle is the RBA cash rate plus 2%. Prior to 2 December 2019 it was the RBA Cash Rate.

Largest holdings	Sector	%
Commonwealth Bank	Financials	8.0%
CSL	Health Care	6.3%
James Hardie	Materials	5.4%
Rio Tinto	Materials	5.3%
BHP	Materials	5.1%
Aristocrat Leisure	Cons. Discretionary	3.4%
Macquarie Group	Financials	3.4%

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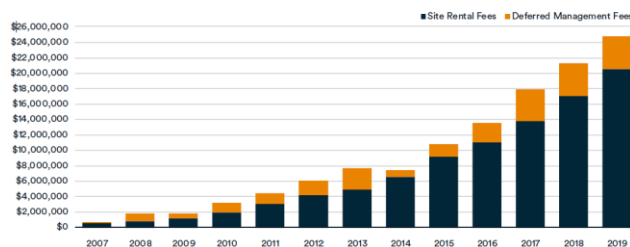
Market and fund commentary

The Bennelong Kardinia Absolute Return Fund fell 2.84% in December, with health care and information technology stocks reversing the gains from last month. This brings the calendar year return to +4.68%. Key contributors and detractors for the month were as follows:

Positive Contributors	Basis Points	Negative Contributors	Basis Points
Lifestyle Communities	+23	SPI Futures	-45
Rio Tinto	+16	Paradigm	-43
Magellan	+13	Goodman Group	-27
Aerometrex	+11	EML Payments	-25
Charter Hall	+10	Ecofibre	-20

Lifestyle Communities was the best performer for the month. The company develops affordable housing for the over 50's market with the current portfolio comprising 18 communities and ~3,500 home sites. The company's strategy is to acquire up to two new community sites per year within Melbourne's growth corridors and key Victorian regional centres. Homeowners own their own home (typically priced at 75-80% of the median house price) and lease the land upon which their homes are located via a weekly site fee. In addition to this weekly rental, Lifestyle earns a deferred management fee (paid on resale of a home).

Lifestyle Communities - growing recurring revenue stream



Source: Company data

We identified the company as a stock of interest at a major broker conference. We were attracted by the strong demand for the company's product (ageing population), a contractually growing rental stream (indexed at the greater of CPI or 3.5%), high incremental returns given management's disciplined use of the balance sheet, good cash flow conversion and a founder led management team (with CEO James Kelly's stake in the business ~\$100m). We took an initial position in the stock following extensive

management meetings. The company is also benefiting from the tailwind of low cap rates.

Aerometrex was another positive contributor for the month. We participated in an IPO of the company in December, with the stock rising 83.5% on listing. Aerometrex is an Adelaide-based aerial imagery and mapping business established in 1980. The company's competitive advantage is the quality and spatial accuracy of its high-resolution images, which are critical for clients including government departments and asset management companies. We see good growth ahead for the company given the release of new products (eg. 3D modelling) and access to capital raised through the IPO process. Prior to its IPO, the business had been funded through internal cashflow, whilst paying dividends and maintaining profitability.

Paradigm, which is repurposing the drug pentosan polysulphate sodium for the treatment of inflammation, was a key detractor this month. The company has conducted two successful phase 2 trials in osteoarthritis and Ross River virus and is well funded with \$78m cash. The stock fell during the month on limited newsflow, breaching our 15% monthly stock loss limit. The monthly stop loss is one of two stop loss disciplines we use (the other being the initial trade price stop) as part of our overarching philosophy of capital protection. The stop forced our exit from the position during the month, however the trade was still profitable from the initiation of the position. Ecofibre was another position we were stopped out of, with the trade stop working to prevent further losses.

A rise in global bond yields (US 10yr +14bp to 1.92%, Australia 10yr +34bp to 1.38%) caused IT growth stocks in the portfolio (EML Payments, Audinate, Appen) to fall, along with Goodman Group.

The Australian equity market fell in November with the S&P/ASX300 Accumulation Index down 2.02%, significantly underperforming global markets (MSCI Asia ex Japan +5.7%, S&P500 +3.0%, FTSE 100 +2.8%, Euro Stoxx 50 +1.2%).

Newsflow during the month saw the impeachment of US President Donald Trump in the House of Representatives with a Senate trial expected in January 2020. Boris Johnson's Conservative Party won the UK election then secured parliamentary approval for his Brexit deal, with the UK's exit from the European Union likely to occur by 31 January 2020.

US and Chinese economic data were mixed, with some signs of a bottoming in European activity data. Australian house prices continued to rise strongly in December (+1.1% month on month) driven again by gains in Sydney and Melbourne however other economic data was generally soft. The unemployment

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rate fell to 5.2%. Gold rose 3.2% to US\$1520/oz while Brent oil rose 9% to US\$66/bbl.

The best sectors were Materials (+1.5%), Utilities (+0.8%) and Energy (-1.5%), while Consumer Staples (-8.1%), Communication Services (-5.8%) and Information Technology (-4.6%) lagged.

We held the Fund's net equity market exposure steady at 74.2% (83.6% long and 9.4% short), with the key changes being a new position in Aerometrex, increased weightings in BHP, Commonwealth Bank, CSL and Rio Tinto, partially offset by the sale of Paradigm, Ecofibre and Clover and four new short positions.

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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%	2.04%	-2.84%	4.68%
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 Spitfire (Wealthtrac)

Hub 24: Super, IDPS Wealth O2

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 Limited (Apex).
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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