

# Bennelong Kardinia Absolute Return Fund

## Monthly performance report

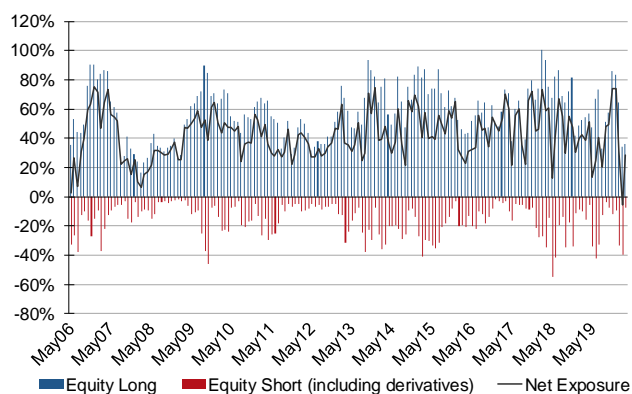
As at 31 March 2020

### Fund at a glance

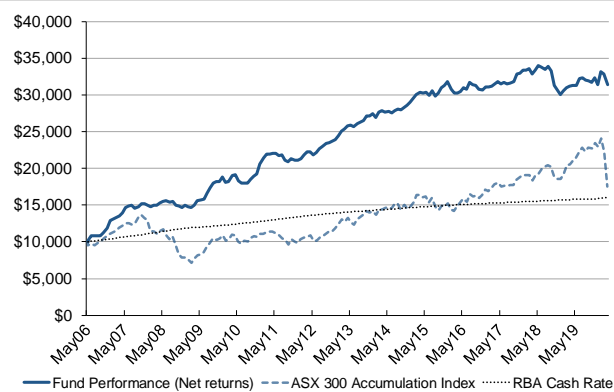
Fund facts	
Strategy	Long-short Australian equity
Process	Fundamental stock selection based on analysis of the macroeconomic environment, company and operating environment, quality of management and valuation
Objective	To achieve consistent positive returns through an investment cycle, with an overarching philosophy of capital protection
Strategy FUM	AUD 128.5 million
Inception date	1 May 2006
Unit price: daily series	1.0882
Unit price: monthly series	1.2803
Fund managers	Mark Burgess, CFA® Kristiaan Rehder, CFA® Stuart Larke, CFA®
Annualised return	8.58%
Total return since inception	214.44%
Annualised standard deviation	7.24%
Sharpe ratio (RFR=RBA cash)	0.71
Percentage of positive months since inception	67.66%

### Fund in review

#### Portfolio exposure analysis



### Fund performance



Source: Kardinia Capital

Timeframe	Fund return	RBA Cash Rate + 2% (Perf Fee hurdle)*
1 month	(4.32%)	0.20%
6 months	(1.60%)	1.01%
1 year	0.92%	1.63%
3 years p.a.	(0.08%)	1.55%
5 years p.a.	0.66%	1.66%
Since inception p.a.	8.58%	3.44%

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	%
BHP	Materials	3.6%
Commonwealth Bank	Financials	3.3%
JB Hi-Fi	Cons. Discretionary	2.9%
CSL	Health Care	2.8%
James Hardie	Materials	2.7%
Fortescue Metals	Materials	2.5%
Fisher & Paykel	Health Care	2.3%
Aristocrat Leisure	Cons. Discretionary	2.2%
Xero	Info Tech	2.1%
Goodman Group	Real Estate	2.1%

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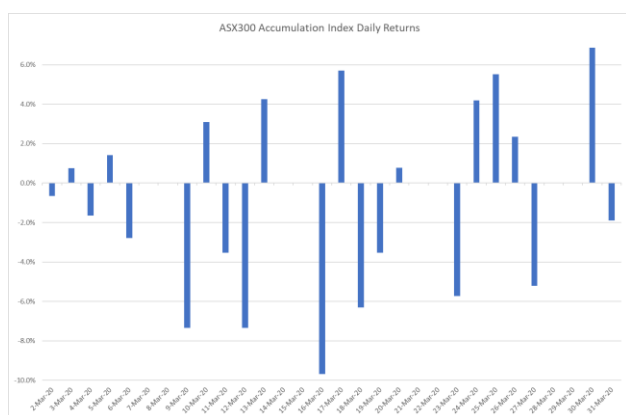
### Market and fund commentary

The Bennelong Kardinia Absolute Return Fund fell 4.32% in March, with the short book and low net market exposure protecting the portfolio from the significant coronavirus-induced market decline during the month (S&P/ASX300 Accumulation Index -20.83%). Key contributors and detractors for the month were as follows:

Positive Contributors	Basis Points	Negative Contributors	Basis Points
Short Book	+600	Macquarie	-100
Fisher & Paykel	+25	CBA	-77
Fortescue	+19	Aristocrat Leisure	-71
Jumbo Interactive	+2	Charter Hall	-61
Rio Tinto	+1	CSL	-60

Fisher & Paykel Healthcare manufactures respiratory humidifiers and consumables that are directly involved in treating patients with coronavirus and has upgraded revenue and profit guidance twice this calendar year due to strong demand and a weakening NZ\$.

It has been a very difficult environment in which to manage money. Volatility rose above GFC peaks to the highest since 1987. The chart below shows the significant swings in daily performance of the ASX300 Accumulation Index during March 2020.



Source: Iress

One of the key attributes of the Kardinia Fund is the low volatility of returns relative to the market. Kardinia's returns since inception have been achieved with a standard deviation of ~7% which is around half the volatility of the ASX300 Accumulation Index.

### Where to from here?

A key question is whether or not the close of 4500 on 23 March is the bottom in this bear market. The market

fell 36% from the market peak on 20 February 2020 and has seen a bounce driven by large Government stimulus programs and emergency central bank easing measures. Our view is this bounce is unsustainable and the market will resume its downward trajectory in time so our positioning remains cautious. However, we are mindful that this thinking has become consensus so we are wary of pushing our net exposure to the market too low in the short term. We are not technical analysts but we are keeping a close eye on some major support levels in both the US and Australian markets. We find it dangerous to be too short around these support levels as bounces can be violent.

We believe the next leg down will be driven by increasingly poor economic data, earnings downgrades and significant corporate recapitalizations. This process has already begun and is not limited to companies with poor balance sheets. The limitations that Governments across the globe have imposed on economic activity (social distancing, quarantine, lockdowns) is causing significant revenue and cash flow declines for even the highest quality companies. We will look to take advantage of this recapitalization process in the coming months.

### Balance Sheets, Balance Sheets, Balance Sheets

Kardinia's first defence in a crisis is to invest in high quality companies with good returns, balance sheets and cash flows. In times of crisis, traditional valuation measures such as price earnings ratios, discounted cashflows and dividend yields take a back seat. Instead, balance sheet strength is all that matters. We saw this during the GFC when the key concerns of the market were company gearing ratios and debt maturity profiles. Many companies were forced to undertake value destructive equity raisings at deep discounts. It is no different this time.

### Short Book

Another defence we have in times of downturn is the ability to short sell stocks and share price index futures to profit from falling share prices. Our Short Book added 600p of performance in March and was a significant factor in helping us to protect investors' capital. We note that during the GFC in 2008/9 short selling of stocks was banned temporarily in Australia. More recently we have seen temporary short selling bans announced by regulators in regions including South Korea, Italy, France, Belgium, Greece, Malaysia and Spain. We are monitoring the situation closely, however news reports during the month suggest that the Federal Treasurer has been advised by ASIC that no ban on short selling in Australia is required. Last time a ban was announced in Australia in 2008 we saw significant short-term rallies in heavily shorted stocks before they resumed their downwards trajectory. It is important to note that the ability to short Share Price Index Futures was not impacted by the short selling ban.

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### Stock Borrow

Another issue that received some press during the month was a large industry super fund suspending its stock lending program. Kardinia relies on stock lending programs in order to be able to short sell stocks. We are watching for any further developments on this issue however believe it is immaterial to the size of the overall lending pool. We did see some contagion during the GFC with other industry funds pulling their stock lending programs however the impact of this was largely on small and illiquid names. In any event, we can also short Share Price Index Futures contracts which is an enormous and highly liquid market.

### Stop Loss Policy

A third defence is our stop loss policy. During the month, a number of stops were triggered. This is no surprise given 200 of the stocks in the AXS300 index fell more than 15% which is our hard stop limit. In fact, 126 stocks fell by more than 30%. Only 21 stocks had a positive month. Our stop loss policy saved the fund more than 300bp of performance for the month.

### Market Performance

The Australian equity market fell heavily in March with the S&P/ASX300 Accumulation Index down 20.83% driven by the rapid spread of the coronavirus (COVID-19). All sectors were negative. The Australian market underperformed global markets (MSCI Asia ex Japan -11.4%, S&P500 -12.4%, FTSE 100 -13.4%, Euro Stoxx 50 -16.2%). Global bond yields collapsed (US 10yr -50bp to 0.66%, Australia 10yr -6bp to 0.76%).

Newsflow during the month was dominated by the worsening global spread of COVID-19 with the number of confirmed cases rising from 86,013 on 29 February to 854,039 by 31 March. This has led to travel bans, quarantine restrictions and lockdowns in several European countries as well as social distancing

measures in many other countries. Mass layoffs were commonplace.

Global central banks have eased aggressively with emergency meetings held by many. The US Federal Reserve cut twice on 3 March and 15 March, reducing the Fed Funds rate from 1.50-1.75% to 0.00-0.25% coupled with an announcement that they would make "unlimited" purchases of Treasury bonds and mortgage-backed securities. The RBA cut twice to a record low of 0.25% and announced other unconventional measures.

Governments across the globe announced major fiscal expansions. The US announced a US\$2 trillion stimulus package. Australia announced three large stimulus packages of \$18b, \$66b and \$130b. Wage subsidy policies have been announced in several countries including Australia, the UK and NZ.

Economic data deteriorated in the US, China and Europe, although the worst is yet to be seen. Australian house prices continued to rise in March (+7.5% year on year) driven again by gains in Sydney and Melbourne. The unemployment rate fell from 5.3% to 5.1%. Gold fell 1% to US\$1577/oz, copper fell 12% to US\$2.23/lb and Brent oil fell 48% to US\$26/bbl.

The best sectors were Consumer Staples (-3.6%), Health Care (-5.4%) and Utilities (-6.2%), while Energy (-37.5%), REITs (-35.1%) and Financials (-27.6%) lagged.

We were very active during the month, increasing the Fund's net equity market exposure from -5.6% to +28.4% (36.1% long and 7.7% short), with the key changes being the closure of most of our individual stock shorts and a significantly reduced short position in Share Price Index futures partially offset by the sale of a significant portion of our long book. We added a number of new long positions to the portfolio including Fortescue Metals, Fisher & Paykel Healthcare and JB Hi-Fi.

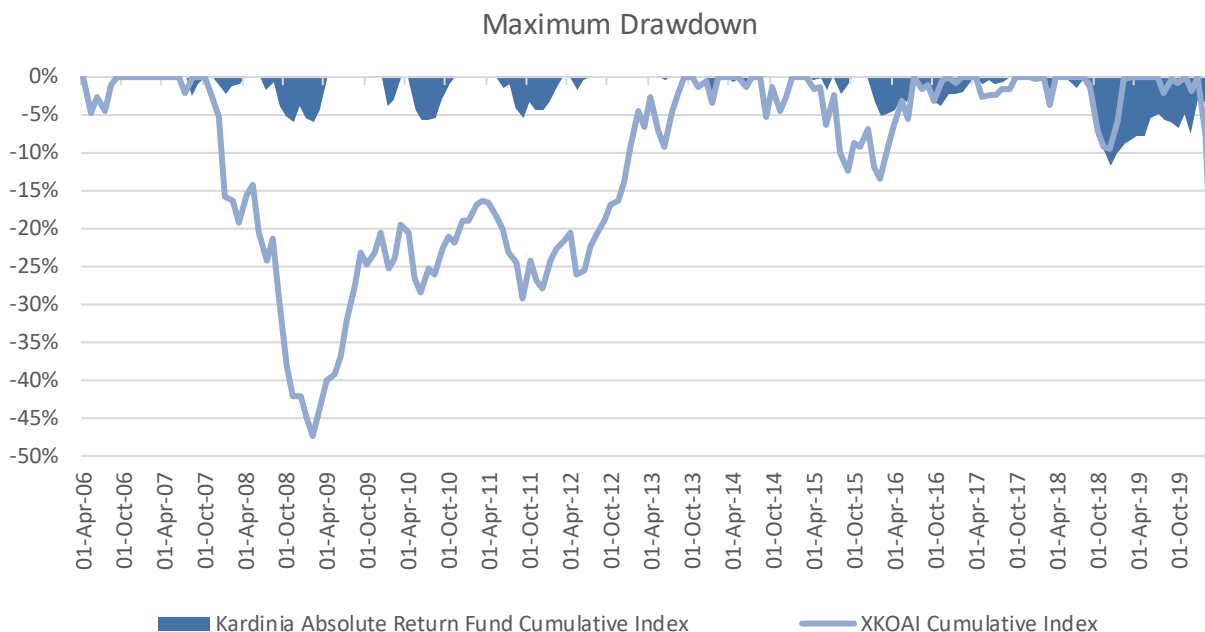
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### Market Drawdowns

Kardinia has a strong track record of protecting capital in market downturns over its 14-year history.



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### Fund performance

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2020	5.40%	-0.86%	-4.32%										-0.01%
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](http://kardiniacapital.com.au)

### How to invest

The Fund is open to investors directly via the PDS (available at [kardiniacapital.com.au](http://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](mailto: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](mailto:client.services@bennelongfunds.com)) to request your performance history.

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