

Bennelong Kardinia Absolute Return Fund

Monthly performance report

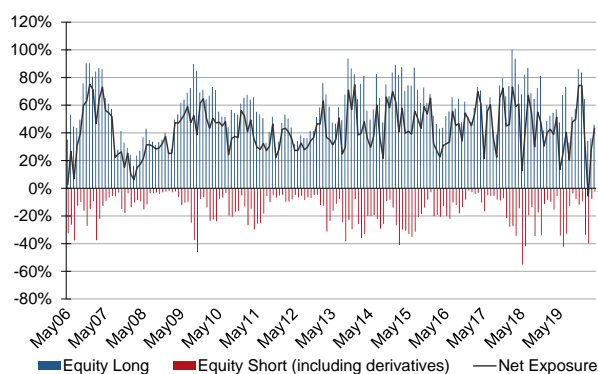
As at 30 April 2020

Fund at a glance

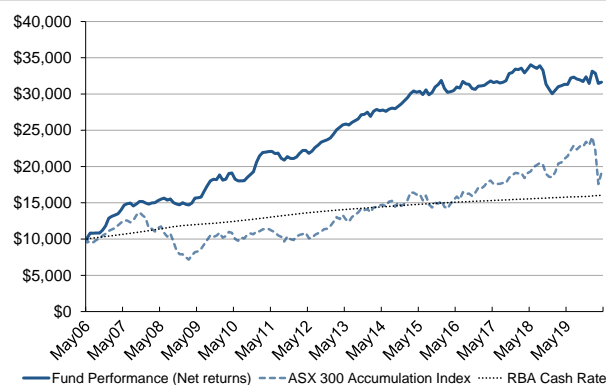
Fund facts	
Strategy	Long-short Australian equity
Process	Fundamental stock selection based on analysis of the macroeconomic environment, company and operating environment, quality of management and valuation
Objective	To achieve consistent positive returns through an investment cycle, with an overarching philosophy of capital protection
Strategy FUM	AUD 131.2 million
Inception date	1 May 2006
Unit price: daily series	1.0952
Unit price: monthly series	1.2883
Fund managers	Mark Burgess, CFA® Kristiaan Rehder, CFA® Stuart Larke, CFA®
Annualised return	8.58%
Total return since inception	216.42%
Annualised standard deviation	7.22%
Sharpe ratio (RFR=RBA cash)	0.72
Percentage of positive months since inception	67.86%

Fund in review

Portfolio exposure analysis



Fund performance



Source: Kardinia Capital

Timeframe	Fund return	RBA Cash Rate + 2% (Perf Fee hurdle)*
1 month	0.63%	0.18%
6 months	(0.25%)	1.13%
1 year	1.01%	1.69%
3 years p.a.	(0.17%)	1.57%
5 years p.a.	0.91%	1.66%
Since inception p.a.	8.58%	3.43%

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	%
Santos	Energy	3.1%
Saracen Mineral	Gold	2.7%
CSL	Health Care	2.6%
Aristocrat Leisure	Cons. Discretionary	2.5%
Fortescue Metals	Materials	2.5%
Appen	Info Tech	2.3%
Polynovo	Health Care	2.3%
James Hardie	Materials	2.2%
Sydney Airports	Industrials	2.2%
Pointsbet Holdings	Cons. Discretionary	2.2%

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Market and fund commentary

The Bennelong Kardinia Absolute Return Fund returned +0.63% in April, with the portfolio lagging the market due to a conservative net long position (S&P/ASX300 Accumulation Index +9.02%). The positive absolute return brings the percentage of positive months for the Kardinia fund since inception to 68%. Key contributors and detractors for the month were as follows:

Positive Contributors	Basis Points	Negative Contributors	Basis Points
JB Hi-Fi	+50	Short Book	-335
Polynovo	+39	Fisher & Paykel	-22
Fortescue	+35	Scentre	-3
BHP	+27	ARB Corp	-1
Macquarie	+23	Bingo	-1

JB Hi-Fi was up 26% for the month. Towards the end of March, the company announced strong sales results driven by technology products that enable working from home and home learning. Total sales growth for JB Hi-Fi Australia was 9.1% (comparable sales growth 8.8%) and The Good Guys was 10.4% (comparable sales growth 10.4%). The company withdrew its FY20 sales and earnings guidance due to the uncertainty associated with COVID-19.

Polynovo rallied 35% during the month after providing a positive trading update. The company had already said in March that it did not consider COVID-19 would have any material impact on its business, then followed this up with a 166% rise in March quarter sales on the prior corresponding period. The company also reported record sales in the US for the month of March. The company is on track to easily double FY19 sales and appears to be on a strong upward trajectory.

After two very strong months, the Short Book detracted from performance this month. We closed out most of the Short Book as sizeable rallies led to many positions breaching our stop loss limits. This included some companies with poor balance sheets that re-rated higher after conducting an equity raising.

Longer term impacts from COVID-19

We have been focused on the short-term impacts of COVID-19 on the economy and share prices but are now turning our attention to some of the longer-term ramifications for markets and particularly in relation to China. As we said in early March, we believe that in time, COVID-19 will be seen as a catalyst which quickly evolves into a crisis of solvency, trade relations and financial markets. The virus itself is not the main event.

We believe manufacturers are increasingly likely to diversify their production away from China, with both

Japan and the US offering incentives to do so. We see increasing tension in trade relations and geopolitics, which has the potential to impact global financial markets over the medium to longer term.

This is certainly worth watching as the situation evolves, with an increase in rhetoric likely in the lead up to the US Presidential election which is scheduled for 3 November 2020. It could be the case that costs are permanently higher and margins lower, and trade skirmishes the norm rather than the exception.

Market Performance

The Australian equity market bounced back in April with the S&P/ASX300 Accumulation Index up 9.02% driven by large Government stimulus programs and emergency central bank easing measures as well as the apparent success of social distancing and other measures in containing the spread of the coronavirus (COVID-19) in Australia and some other countries.

All sectors were positive. The Australian market underperformed the US (S&P500 +12.8%) but outperformed other global markets (MSCI Asia ex Japan +8.4%, Euro Stoxx 50 +5.4%, FTSE 100 +3.9%). Global bond yields remained low (US 10yr -2bp to 0.64%, Australia 10yr +13bp to 0.89%).

Newsflow during the month continued to be dominated by COVID-19 with the number of confirmed global cases rising beyond 3 million by 30 April. Australia's social isolation policies appear to have been successful to date with the growth rate in new cases falling from 12.2% at the end of March to just 0.2% at the end of April. A major surprise during the month was the fall in the WTI oil futures price to minus US\$37/bbl on 20 April due to low demand, limited storage capacity at Cushing Oklahoma and the impending expiry of the May futures contract.

Economic data deteriorated in the US, China and Europe. Australian house prices continued to rise in April (+8.3% year on year). The unemployment rate ticked up to 5.2%. Gold rose 7% to US\$1685/oz, copper rose 5% to US\$2.34/lb and Brent oil rose 3% to US\$27/bbl.

The best sectors were Energy (+24.9%), Information Technology (+22.5%) and Consumer Discretionary (+15.9%), while Consumer Staples (+2.4%), Utilities (+2.7%) and Financials (+2.8%) lagged.

We increased the Fund's net equity market exposure from 28.4% to 43.3% (45.8% long and 2.5% short), with the key changes being the addition of 13 new long positions including Santos, Pointsbet, Seek, Nanosonics and Altium and the closure of several individual stock shorts and our short position in Share Price Index futures. Our net market exposure has averaged ~40% since inception and we are close to that level given our cautious view on the direction of the market over the next 12 months. For now, liquidity is overwhelming earnings.

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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%	0.63%									0.62%
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:

- Kardinia Capital is an investment manager that invests solely in Australian and New Zealand securities.
- 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.
- Valuations are computed and stated in Australian dollars and are provided by independent service provider Apex Fund Services (Sydney) Pty Limited (Apex).
- 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.
- A complete and detailed list of performance results including a presentation is available upon request.
- 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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