

Bennelong Kardinia Absolute Return Fund

Monthly performance report

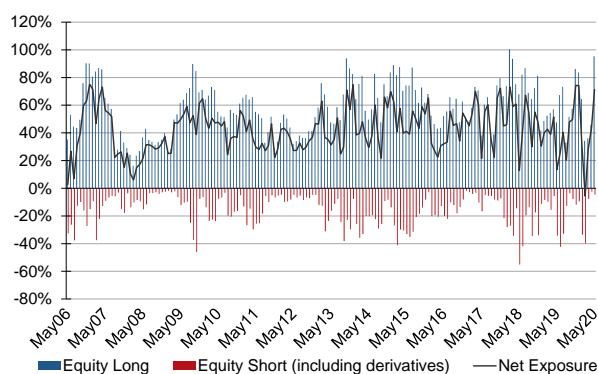
As at 31 May 2020

Fund at a glance

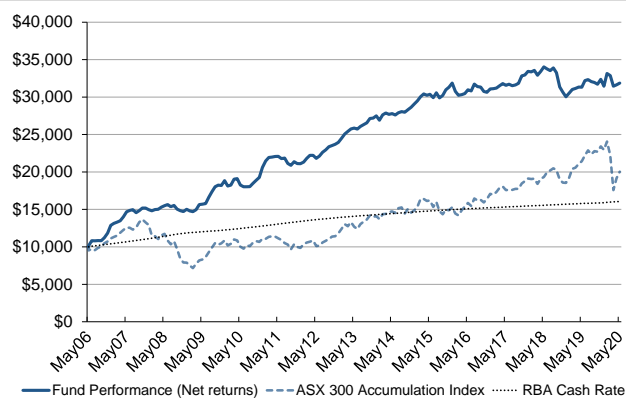
Fund facts	
Strategy	Long-short Australian equity
Process	Fundamental stock selection based on analysis of the macroeconomic environment, company and operating environment, quality of management and valuation
Objective	To achieve consistent positive returns through an investment cycle, with an overarching philosophy of capital protection
Strategy FUM	AUD 134.8 million
Inception date	1 May 2006
Unit price: daily series	1.1033
Unit price: monthly series	1.2977
Fund managers	Kristiaan Rehder, CFA® Stuart Larke, CFA®
Investment Specialist	Mark Burgess, CFA®
Annualised return	8.58%
Total return since inception	218.71%
Annualised standard deviation	7.20%
Sharpe ratio (RFR=RBA cash)	0.72
Percentage of positive months since inception	68.05%

Fund in review

Portfolio exposure analysis



Fund performance



Source: Kardinia Capital

Timeframe	Fund return	RBA Cash Rate + 2% (Perf Fee hurdle)*
1 month	0.73%	0.19%
6 months	(1.53%)	1.26%
1 year	1.77%	1.75%
3 years p.a.	0.32%	1.59%
5 years p.a.	0.97%	1.67%
Since inception p.a.	8.58%	3.42%

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	%
CBA	Financials	8.5%
NAB	Financials	5.8%
Santos	Energy	5.3%
Charter Hall	Real Estate	4.3%
James Hardie	Materials	3.7%
Amcor	Materials	3.6%
Alumina	Materials	3.4%
Atlas Arteria	Industrials	3.2%
Seek	Comm. Services	3.2%
REA Group	Comm. Services	3.2%

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Market and fund commentary

The Bennelong Kardinia Absolute Return Fund returned +0.73% in May, with the portfolio lagging the market due to a conservative net long position (S&P/ASX300 Accumulation Index +4.58%). Key contributors and detractors for the month were as follows:

Positive Contributors	Basis Points	Negative Contributors	Basis Points
Saracen	+62	Short Book	-185
James Hardie	+43	NAB	-32
Pointsbet	+39	CSL	-27
Ramelius	+30	Jumbo Interactive	-22
Appen	+30	Sydney Airport	-18

The positive contributors were dominated by Materials stocks, including Saracen and Ramelius due to the strong gold price and Fortescue due to the strong iron ore price. James Hardie rallied 16% for the month after reporting its FY20 result. The result was pre-guided but the margin outlook for the first six weeks of FY21 was positive. The company guided to a 1Q21 North America EBIT margin of 22-27% which was significantly better than feared.

Given the strong rally in the market, the Short Book detracted from performance this month. This was largely driven by a short position in Share Price Index Futures contracts, which were used to partially offset a sizeable increase to our gross long book.

We participated in a significant number of capital raisings/placements during the month, including Qube, Elmo Software, Megaport, Incitec Pivot, Breville Group, Bigtincan and Decmil. We expect this to continue over the coming months.

Market Performance

The Australian equity market continued to recover in May with the S&P/ASX300 Accumulation Index up 4.58% driven by the gradual removal of lockdown measures and large Government stimulus programs and emergency central bank easing.

All sectors apart from Health Care and Consumer Staples were positive. Small caps outperformed with

the Small Ordinaries Accumulation Index rising 10.59%. Global markets were also strong (Euro Stoxx 50 +4.9%, S&P500 +4.8%, FTSE 100 +3.3%, MSCI Asia ex Japan -0.7%). Global bond yields remained low (US 10yr +1bp to 0.65%, Australia 10yr -1bp to 0.88%).

Newsflow during the month continued to be dominated by COVID-19 with the number of confirmed global cases nearly doubling over the month to ~6 million by 31 May. Australia's social isolation policies has seen new cases slow to a trickle such that Prime Minister Scott Morrison announced a three-stage plan to reopen the country by July. Commodity prices staged a significant recovery with iron ore rising above \$100/t and Brent oil up 41% to US\$38/bbl. US tensions with China continued with the US President announcing he would remove Hong Kong's special trade status following the imposition of a new security law on Hong Kong by China.

Economic data deteriorated in the US, China and Europe but was generally better than expected. Australian data was mixed but also better than expected. House prices fell by a modest 0.1% in May (+8.3% year on year). The unemployment rate increased by 1.0% to 6.2% but was well below consensus expectations for 8.2%. Consumer sentiment rose 16.4% month on month. Gold rose 3% to US\$1729/oz and copper rose 3% to US\$2.43/lb.

The best sectors were Information Technology (+14.5%), Communication Services (+8.4%) and Materials (+8.1%), while Health Care (-5.3%), Consumer Staples (-0.4%) and Utilities (+3.1%) lagged.

We increased the Fund's net equity market exposure from 43.3% to 71.3% (95.3% long and 24.0% short), with the key changes being a significant increase in our banking exposure (CBA, NAB) as well as technology, resources and oil stocks. Recent lifting of restrictions across the nation and the sheer magnitude of the stimulus provided offer significant short-term positives, with the prospect of a V-shaped recovery not as unlikely as many would believe. We do not believe the recent rally represents a new bull market. We think volatility will remain high and that a new bull market is several years away. Our view is that the market will trade in a broad range until the outcome of the US election on 3 November 2020 is known.

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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%	0.73%								1.35%
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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