

# Bennelong Kardinia Absolute Return Fund

## Monthly performance report

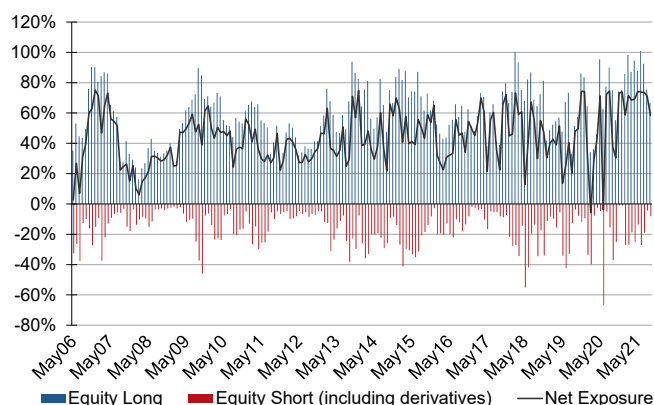
As at 30 September 2021

### Fund at a glance

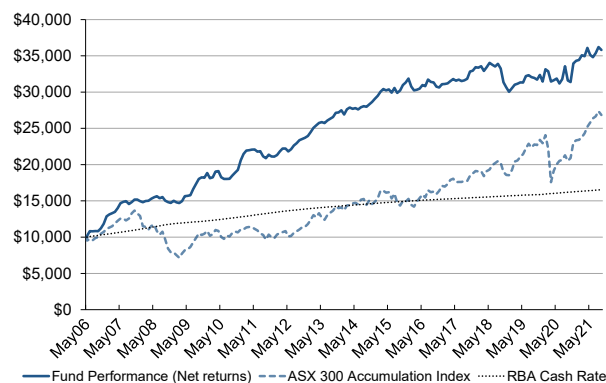
Fund facts	
Strategy	Long-short Australian equity
Process	Fundamental stock selection based on analysis of the macroeconomic environment, company and operating environment, quality of management and valuation
Objective	To achieve consistent positive returns through an investment cycle, with an overarching philosophy of capital protection
Strategy FUM	AUD 88.3 million
Inception date	1 May 2006
Unit price: daily series	1.0391
Unit price: monthly series	1.2200
Fund managers	Kristiaan Rehder, CFA® Stuart Larke, CFA®
Investment Specialist	Mark Burgess, CFA®
Annualised return	8.63%
Total return since inception	258.10%
Annualised standard deviation	7.62%
Sharpe ratio (RFR=RBA cash)	0.70
Percentage of positive months since inception	67.03%

### Fund in review

#### Portfolio exposure analysis



### Fund performance



Source: Kardinia Capital

Timeframe	Fund return	RBA Cash Rate + 2% (Perf Fee hurdle)*
1 month	(1.08%)	0.17%
6 months	2.47%	1.06%
1 year	13.33%	2.13%
3 years p.a.	2.51%	1.88%
5 years p.a.	2.70%	1.73%
Since inception p.a.	8.63%	3.32%

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	5.2%
Oil Search	Energy	3.5%
East 33	Consumer Staples	3.0%
Uniti Group	Comm. Services	2.8%
Proteomics	Health Care	2.6%
Flight Centre	Cons. Discretionary	2.6%
Qantas	Industrials	2.5%
Centuria Capital	REITs	2.5%
REA Group	Comm. Services	2.4%
Tyro Payments	Info Tech	2.3%

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### Market and fund commentary

The Bennelong Kardinia Absolute Return Fund fell 1.08% in September, with the market snapping an eleven-month positive streak to also finish down (S&P/ASX300 Accum Index -1.89%).

Global markets were weak (S&P500 -4.7%, Euro Stoxx 50 down 3.4%, MSCI Asia ex Japan -3.4%) as bond yields rose (US 10-year yield up 24bp to 1.52%) and concerns grew over the potential bankruptcy of Chinese property developer Evergrande. Evergrande's liabilities total ~\$313b which is nearly 7% of China's total property sector.

Key contributors and detractors for the month:

Positive Contributors	Basis Points	Negative Contributors	Basis Points
Oil Search	+40	Proteomics	-60
Harvest Technology	+36	Uniti Group	-30
CBA	+22	Bluescope Steel	-27
Neometals	+20	Mineral Resources	-26
Flight Centre	+20	Family Zone	-25

A range of companies across several different sectors led to the outperformance of the Kardinia Fund during the month.

Oil Search benefited from the strong rise in the oil price. The company also entered into a definitive merger agreement with Santos such that Oil Search shareholders will end up owning 38.5% of the merged entity which will have a market capitalization of ~A\$21b. Synergies of US\$90-115m per annum are expected.

Harvest Technology partnered with Innovation Central Perth to conduct a study into integrating its bandwidth optimization technology with WebEx by Cisco and is rapidly approaching phase 2 (diversifying the customer base) of its three-phase strategic plan. The company has spent most of the past year on product development activities, but we expect revenue to grow from a low base as the company executes against its strategic plan.

Flight Centre benefited from improving sentiment towards travel-related stocks as the global COVID vaccine rollout gathers pace. We expect a rapid return to profit in regions as borders re-open and as quarantine requirements are minimized. International travel is likely to be allowed to certain countries from NSW and Victoria in November. The company has considerable liquidity to deal with the likely hiccups along the way.

Neometals announced the commissioning of the hydrometallurgical refining circuits of its lithium-ion battery recycling demonstration plant. The company also completed the demerger of its nickel project ("Widgie Nickel") which is now listed on the ASX.

The short book added 72bp of performance for the month with shorts in resources, financial services and Share Price Index Futures the key contributors.

On the negative side, Proteomics fell despite no newsflow during the month, Uniti Group pulled back after a strong run and Bluescope Steel fell along with its peers as the whole sector de-rated (despite no change in the steel price).

The best sectors for the month were Energy (+16.7%), Utilities (+2.5%) and Financials (+1.6%). Materials (down 9.3%), Health Care (-4.9%) and Information Technology (-3.9%) lagged.

Commodity prices were generally weaker with iron ore down US\$46.50/t to US\$110/t (due to slowing Chinese crude steel demand) and copper down 7% to US\$4.09/lb. Brent oil rose 8% to US\$79/bbl. Gold fell 3% to US\$1757/oz. The A\$/US\$ fell 1% to US\$0.72.

### Outlook & Positioning

We reduced our net exposure during the month from 71.1% to 57.0% (64.9% long and 7.9% short). Moving to a more defensive positioning given heightened talk of tapering by the US Federal Reserve, slowing Chinese data and a softening in domestic economic data as around 50% of Australia's population (NSW, Vic) have been under stay-at-home orders due to delta COVID outbreaks.

However, we remain optimistic into year-end given strong vaccination rates should see Australia reach the 70% threshold for double vaccinations by the end of October (with NSW likely to be beyond 80%), which will be around the same time as AGM season. Our view is CEOs will start to get more optimistic around this event. This is likely to continue the rotation towards coronavirus-impacted sectors.

Spending on goods through the pandemic has come at the obvious expense of services. With the opening of economies, we expect this trend to reverse with consumers looking to spend on travel, gaming and transport including energy. The surveys that we pay particular attention to indicate that spending intentions over the next 12 months are at record highs, reflecting strong pent-up demand.

The Kardinia portfolio is positioned for re-opening, with stocks that benefit from this comprising ~25% of the long book. We expect to increase this exposure where opportunities present themselves in the coming weeks. Key exposures are banks, offshore earners and re-openers.

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### Fund performance

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2021	0.32%	1.86%	-0.36%	3.26%	-2.64%	-0.90%	1.60%	2.35%	-1.08%				4.35%
2020	5.40%	-0.86%	-4.32%	0.63%	0.73%	-2.15%	1.90%	5.63%	-5.88%	-0.70%	8.21%	1.07%	9.13%
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 Experience 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	Macquarie Wrap: IDPS, Super
BT Asgard: Master Trust, Employee Super, Infinity eWrap	Netwealth: Super Service, Wrap Service, IDPS
BT: Panorama	Oasis: Wealthtrac, Dominion
CFS: FirstChoice, FirstWrap, IX (PIS)	Powerwrap: Super, Pension, Smartwrap
Hub 24: Super, IDPS	Wealthtrac
IOOF: Portfolio Services	Wealth O2
Mason Stevens	

### 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 Experience on 1800 895 388 (AU) or 0800 442 304 (NZ) or [client.experience@bennelongfunds.com](mailto:client.experience@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 Experience (1800 895 388 or [client.experience@bennelongfunds.com](mailto:client.experience@bennelongfunds.com)) to request your performance history.

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