

# Bennelong Kardinia Absolute Return Fund

## Monthly performance report

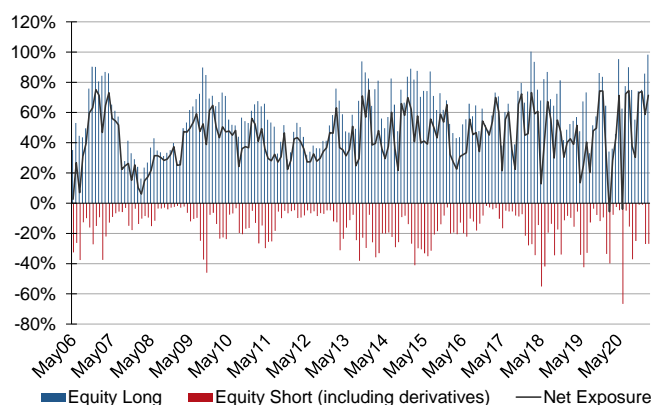
As at 28 February 2021

### Fund at a glance

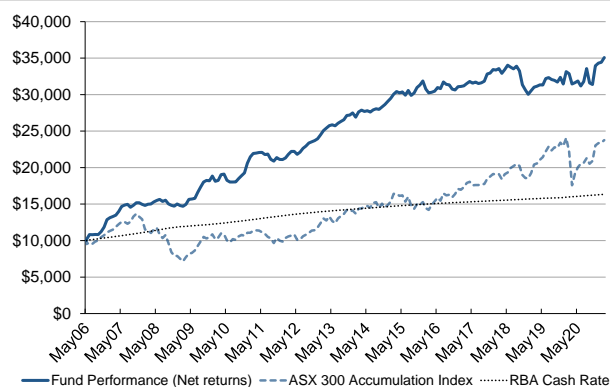
Fund facts	
Strategy	Long-short Australian equity
Process	Fundamental stock selection based on analysis of the macroeconomic environment, company and operating environment, quality of management and valuation
Objective	To achieve consistent positive returns through an investment cycle, with an overarching philosophy of capital protection
Strategy FUM	AUD 99.6 million
Inception date	1 May 2006
Unit price: daily series	1.1539
Unit price: monthly series	1.3555
Fund managers	Kristiaan Rehder, CFA® Stuart Larke, CFA®
Investment Specialist	Mark Burgess, CFA®
Annualised return	8.83%
Total return since inception	250.71%
Annualised standard deviation	7.65%
Sharpe ratio (RFR=RBA cash)	0.71
Percentage of positive months since inception	67.98%

### Fund in review

#### Portfolio exposure analysis



### Fund performance



Source: Kardinia Capital

Timeframe	Fund return	RBA Cash Rate + 2% (Perf Fee hurdle)*
1 month	1.86%	0.16%
6 months	4.47%	1.07%
1 year	6.72%	2.23%
3 years p.a.	1.48%	1.76%
5 years p.a.	3.02%	1.69%
Since inception p.a.	8.83%	3.36%

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	%
National Aust Bank	Financials	8.9%
BHP	Materials	5.4%
Commonwealth Bank	Financials	4.8%
Fortescue Metals	Materials	3.8%
Proteomics	Health Care	3.5%
REA Group	Comm. Services	3.3%
Macquarie Group	Financials	3.2%
Pointsbet	Cons. Discretionary	3.2%
Flight Centre	Cons. Discretionary	3.2%
Vicinity Centres	Real Estate	3.2%

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### Market and fund commentary

The Bennelong Kardinia Absolute Return Fund returned +1.86% in February, outperforming the market return (S&P/ASX300 Accumulation Index +1.48%).

Key contributors and detractors for the month:

Positive Contributors	Basis Points	Negative Contributors	Basis Points
Proteomics	+139	Charter Hall	-44
Paladin	+75	Harvest Tech	-42
Flight Centre	+38	Pointsbet	-37
NAB	+38	MACA Limited	-32
Galena Mining	+37	REA Group	-32

Proteomics is a medical technology company that has begun the commercialisation of its novel diabetic kidney disease test, ProMarkerD, which promises to accurately detect diabetic kidney disease up to four years in advance. The company has a very large addressable market and is collaborating with Janssen, a US pharmaceutical company. Proteomics has secured CE Mark registration for the EU and has signed licensing deals in Mexico, Dominican Republic, Spain, Italy and Israel. Cash burn is low due to income from its analytical business.

### Reporting Season

The Australian profit reporting season was a good one, with 51% beating expectations, driven by stronger margins. Consensus FY21 earnings forecasts were upgraded during the month, with the banks a key driver of the upgrades. Bank stocks reported significant beats with improving net interest margins, strong fee income, lower costs and improved asset quality. As the yield curve steepens, we expect to see easing margin headwinds. The Kardinia portfolio performed well during reporting season, with ~90% of companies either beating or meeting expectations.

### The Beginning of The End

The COVID-19 virus has had a devastating impact around the world with more than 2.5 million people dead. However, we believe an end to the pandemic is in sight with several vaccines now being rolled out across the globe. At the time of writing, more than 236 million doses have been administered across 103 countries, which now exceeds the 114 million confirmed COVID-19 cases globally.

We are closely following events in Israel, which is the most advanced country in the global vaccine rollout, and the signs are promising. Israel's health ministry recently announced a real-world study in the country that showed the Pfizer vaccine was 99% effective at preventing COVID-19 deaths and serious symptoms. Case numbers in the US and UK are also falling.

Australia is targeting 13 million vaccinations by mid-year, with the country fully vaccinated by October 2021. We are optimistic about the likely success of the vaccine rollout and stocks that benefit from a re-opening scenario dominate our portfolio. Key holdings currently include Flight Centre, Pointsbet, Vicinity Centres, Virgin Money UK and Xero.

### Up Goes the Yield Curve

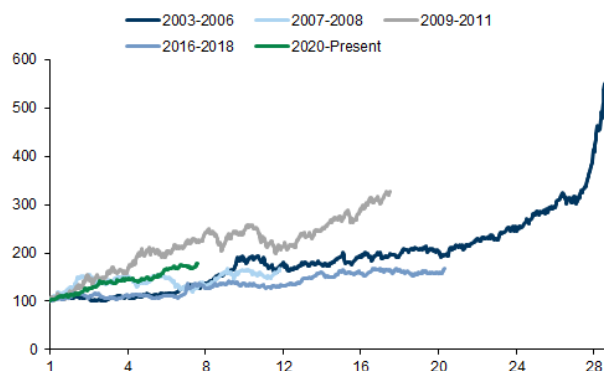
While we expect the world to move into a recovery phase, the astonishing level of debt left in the aftermath of the COVID-19 pandemic is presenting real challenges for global governments. Quite possibly the only realistic policy outcome is a long period of above normal inflation (2.5%), which inflates away the world's debt. The US Federal Reserve is on record stating that it will hold rates low until full employment is reached and the rate of inflation exceeds the 2% target for some time. Should the Fed hold this line while growth and inflation expectations accelerate, the yield curve (10-year bonds less 2-year bonds) will likely steepen further than it already has.

History suggests Price to Earnings multiples will contract when the yield curve steepens and inflation moves above 2.5%. However Goldman Sachs has identified three periods in recent history (2013, 2015 and 2016) where the curve steepened dramatically, but in each case a sell-off in stocks was not sustained. We increased our net market exposure during the month from 58.7% to 71.4% (98.3% long and 26.9% short).

### Copper bull market remains early stage

The copper price rose 15% to US\$4.09/lb during the month and is now up 84% from the March 2020 lows.

The copper price is benefiting from strong demand (as Government and central bank stimulus drives a recovery in global growth) and weak supply (due to years of underinvestment). US Fed Chairman Powell has stated that US GDP growth could exceed 6% this year. With a tight market and a very low starting point for inventories, we believe the copper bull market has further to run.



Source: Bloomberg, Goldman Sachs Global Investment Research

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### Fund performance

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2021	0.32%	1.86%											2.19%
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 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, Employee Super, Infinity	Macquarie Wrap: IDPS, Super	
BT: Wrap, Super Wrap, Assemble	Netwealth: Super Service, Wrap Service, IDPS	
CFS: FirstChoice, FirstWrap, IX	Oasis: Dominion	
Credit Suisse	Powerwrap: Super, Pension, Smartwrap	
Federation	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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