

Bennelong Kardinia Absolute Return Fund

Monthly performance report

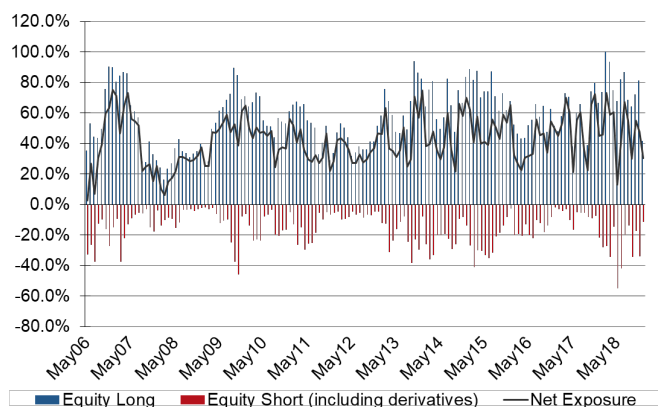
As at 31 December 2018

Fund at a glance

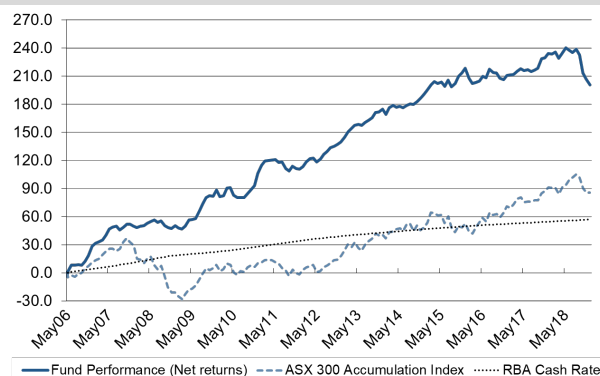
Fund facts	
Strategy	Long-short Australian equity
Process	Fundamental stock selection based on analysis of the macroeconomic environment, company and operating environment, quality of management and valuation
Objective	To achieve returns in excess of 10% per annum through an investment cycle, with an overarching philosophy of capital protection*
FUM	AUD 166.6 million
Inception date	1 May 2006
Unit price: daily series	1.0690 (cum-distribution)
Unit price: monthly series	1.2610 (cum-distribution)
Fund managers	Mark Burgess, CFA® Kristiaan Rehder, CFA®
Annualised return	9.07%
Total return since inception	200.42%
Annualised standard deviation	7.18%
Sharpe ratio (RFR=RBA cash)	0.76
Percentage of positive months since inception	69.08%

Fund in review

Portfolio exposure analysis



Fund performance



Source: Kardinia Capital

Timeframe	Fund return	Benchmark	Value added
1 month	(2.02%)	0.13%	(2.14%)
3 months	(9.63%)	0.38%	(10.01%)
6 months	(11.02%)	0.76%	(11.78%)
1 year	(10.12%)	1.51%	(11.63%)
3 years p.a.	(1.94%)	1.59%	(3.53%)
5 years p.a.	1.79%	1.88%	(0.09%)
Since inception p.a.	9.07%	3.62%	5.45%

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 benchmark is the RBA cash rate and the inception date is 1 May 2006.

Largest holdings	Sector	%
Northern Star	Materials	3.3%
Rio Tinto	Materials	3.3%
CSL	Health Care	3.2%
CBA	Financials	3.2%
Woolworths	Consumer Staples	3.1%
Transurban	Industrials	3.0%
BHP	Materials	2.6%
Evolution Mining	Materials	2.3%
Orora	Materials	2.1%
Tabcorp	Cons. Discr.	2.0%

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Market and fund commentary

December was another weak month for the Australian equity market and the Bennelong Kardinia Absolute Return Fund with the S&P/ASX300 Accumulation Index falling 0.23%, although the Australian market outperformed global markets which fell sharply (S&P500 -9.0%, FTSE 100 -3.5%, Euro Stoxx 50 -5.2%, MSCI Asia ex Japan -2.8%).

Key global newsflow for the month included a 25 basis point increase in the Fed Funds target range to 2.25%-2.50%; the partial shutdown of the US Government due to disagreement over the funding of a border wall with Mexico; and the postponement of a UK parliamentary vote on Prime Minister Theresa May's proposed BREXIT deal. US 10-year Treasury bond yields rallied hard again, with yields falling 33bp over the month to 2.68%, driven by a fall in inflation expectations on the back of lower oil prices and concerns around global growth.

US economic data was mixed but resilient, while Chinese and European economic data generally softened during the month. Australian economic data was also weaker (dwelling prices down 4.8% year on year which is the worst since the GFC, 3Q GDP growth of just 0.3% was well below expectations for a rise of 0.6%).

The oil price continued its sharp fall (Brent -9% to US\$54/bbl), while bulk commodities were mixed (iron ore +11% to US\$73/t, met coal -2% to US\$221/t, thermal coal +2% to US\$102/t). Base metals were weak (aluminium -3%, copper -4%, nickel -4%, zinc -4%), while gold rose 5% to US\$1,285/oz. The AUD/USD fell 4% to US\$0.71.

The best sectors were Materials (+5.3%), Health Care (+2.9%) and Utilities (+2.9%), while Telcos (-5.0%), Information Technology (-4.0%) and Financials ex REITs (-3.1%) lagged.

The Bennelong Kardinia Absolute Return Fund fell 2.02% in December.

Gold stocks were strong performers for the month, with a long position in Northern Star the biggest positive contributor (+37 basis point contribution for the month) and Evolution Mining (+26bp) also adding to performance. Northern Star has a strong track record of production growth, cost control and acquisitions, with the recent acquisition of the Pogo mine in Alaska offering considerable upside potential. Evolution has a similar strong track record but a flatter production outlook. Both stocks have defensive characteristics in increasingly volatile and uncertain markets.

BHP (+34bp) and Rio Tinto (+21bp) were both solid performers for the month, driven by better iron ore prices and capital management initiatives. BHP

announced the completion of its US\$5.2b off-market buyback of Limited shares and a US\$1.02 special dividend. Rio Tinto announced the completion of the sale of its interest in the Grasberg copper mine in Indonesia for US\$3.2b.

The individual stock short book also performed well (+11bp), with shorts in the financial services and waste management sectors the key contributors.

ANZ (-87 basis point contribution for the month) was the worst performer, falling 9% despite an in line profit result last month as house prices continued to fall and the market grew concerned about the sale of its Wealth unit to IOOF. National Australia Bank (-22bp) also fell on concerns about the overall credit growth outlook. Late in the month, APRA announced the removal of the interest only lending cap from January 2019.

Nine Entertainment (-43bp) completed its merger with Fairfax during the month, but the stock fell as TV advertising markets weakened and the Domain business faced sizeable headwinds from the weak property market. Macquarie Group (-25bp) fell 5%, largely due to the risk off environment as there was no material negative stock specific newsflow for the month. Netwealth (-17bp) gave back part of last month's very strong rally that was driven by a largely positive AGM update that confirmed an expanding addressable market, a continued increase in net inflows, flat EBITDA margins (despite price competition) and minimal revenue impact from the recent equity market correction.

Net equity market exposure was reduced from 47.3% to 30.4% (41.7% long and 11.3% short), with the key changes being new positions in Northern Star, Evolution Mining, Transurban and Woolworths; the closure of a short position in Share Price Index Futures contracts offset by seven new individual stock short positions; and the sale of ANZ, NAB, Westpac and Nine Entertainment.

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	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
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%

How to invest

The Fund is open to investors directly via the PDS (available at kardiniacapital.com.au), or a range of platforms.

Contact details

For more information, contact Client Services on 1800 895 388 (AU) or 0800 442 304 (NZ), or visit kardiniacapital.com.au

Platforms

AMP: Elements Investment, Elements Pension, My North, North, Portfolio Care, Portfolio Care eWrap, PPS, Weathview eWrap Inv

AON Hub 24: Super, IDPS

Asgard: Master Trust, eWrap, Employee Super, Infinity IOOF: Portfolio Services

BT: Wrap, Super Wrap, Assemble Macquarie Wrap: IDPS, Super

CFS: FirstChoice, FirstWrap, IX Netwealth: Super Service, Wrap Service, IDPS

Credit Suisse Oasis: Wealthtrac, Dominion

Federation Powerwrap: Super, Pension, Smartwrap

* There is no guarantee that this objective will be achieved and it is only an indication of the intended target return.

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. Bennelong Funds Management Ltd (Bennelong) assumed responsibility as replacement trustee on 16 August 2011. Performance information prior to 16 August 2011 relates to the previous trustee. 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 Custom House Fund Services (Australia) Pty Limited (Custom House).
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) to request your performance history.

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