

Bennelong Kardinia Absolute Return Fund

Monthly performance report

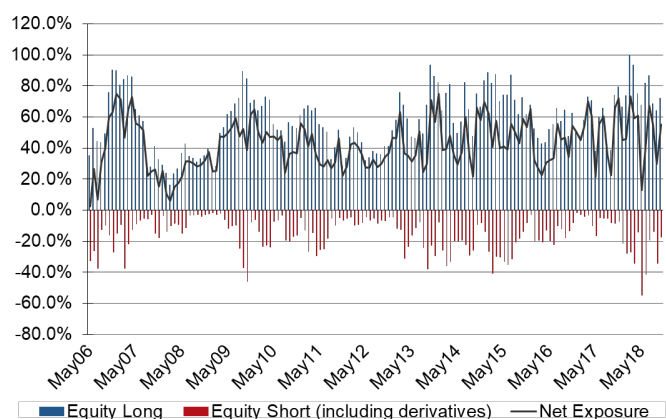
As at 31 October 2018

Fund at a glance

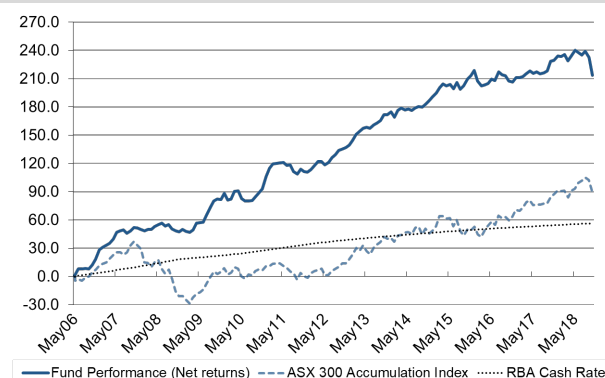
Fund facts	
Strategy	Long-short Australian equity
Process	Fundamental stock selection based on analysis of the macroeconomic environment, company and operating environment, quality of management and valuation
Objective	To achieve returns in excess of 10% per annum through an investment cycle, with an overarching philosophy of capital protection*
FUM	AUD 178.7 million
Inception date	1 May 2006
Unit price: daily series	1.1151
Unit price: monthly series	1.3156
Fund managers	Mark Burgess, CFA® Kristiaan Rehder, CFA®
Annualised return	9.57%
Total return since inception	213.45%
Annualised standard deviation	7.14%
Sharpe ratio (RFR=RBA cash)	0.83
Percentage of positive months since inception	70.00%

Fund in review

Portfolio exposure analysis



Fund performance



Source: Kardinia Capital

Timeframe	Fund return	Benchmark	Value added
1 month	(5.71%)	0.13%	(5.84%)
3 months	(6.53%)	0.38%	(6.91%)
6 months	(6.24%)	0.76%	(7.00%)
1 year	(4.55%)	1.51%	(6.06%)
3 years p.a.	0.41%	1.62%	(1.21%)
5 years p.a.	2.92%	1.92%	1.00%
Since inception p.a.	9.57%	3.65%	5.92%

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	%
Macquarie Group	Financials	8.2%
Westpac	Financials	7.4%
CSL	Health Care	6.6%
NAB	Financials	5.1%
ANZ	Financials	5.0%
Aristocrat Leisure	Consumer Discr.	4.7%
Computershare	Info Tech	3.6%
Tabcorp	Consumer Discr.	3.1%
Rio Tinto	Materials	3.0%
BHP	Materials	2.9%

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Market and fund commentary

October was a brutal month for equity markets and the Bennelong Kardinia Absolute Return Fund, with global markets recording their largest fall since May 2010 (S&P500 -6.8%, FTSE 100 -4.9%, Euro Stoxx 50 -5.8%, MSCI Asia ex Japan -9.9%). The Fund fell 5.71%. While not as bad as the Australian market (S&P/ASX300 Accumulation Index -6.16%), this was a disappointing result. There was nowhere to shelter, with even the best-performed defensive sectors REITs (-3.1%), Utilities (-4.0%) and Consumer Staples (-4.8%) down sharply.

Global economic growth and corporate profits remain robust, and it has been a bond selloff on hawkish US Fed commentary and geopolitical factors (trade tensions, Italian budget concerns, Khashoggi murder, Wentworth by-election) which have triggered this correction. During the selloff we added to our highest conviction positions, building net exposure to 55% (from 30%) on our expectation that this is a short but violent pullback rather than the beginning of a bear market.

The fall in equity markets occurred despite the US earnings season producing the best growth since 3Q 2010, with the number and size of earnings beats above 5-year averages. US economic data was generally solid with unemployment falling to only 3.7%, but housing starts fell 5.3% to 1.2m (annualised). Australian economic data was mixed (dwelling prices continued to fall, as did consumer and business confidence, but retail sales were better than expected).

The oil price fell (Brent -10% to US\$75/bbl), while bulk commodities were mixed (met coal +8% to US\$219/t, thermal coal -8% to US\$104/t, iron ore +9% to US\$76/t). Base metals were weaker (aluminium -3%, copper -2%, nickel -7%, zinc +1%), while gold rose 2% to US\$1,216/oz. The AUD/USD fell 2% to US\$0.71.

All sectors of the market were negative in October. The best were REITs (-3.1%), Utilities (-4.0%) and Consumer

Staples (-4.8%), while Information Technology (-11.2%), Energy (-10.5%) and Consumer Discretionary (-8.0%) lagged.

The Bennelong Kardinia Absolute Return Fund had a poor month, falling 5.71%. Our Resources exposure (which will be a primary beneficiary of the emerging global reflationary environment) and core holdings in quality growth stocks like Aristocrat, CSL and Macquarie hurt performance. Fundamental stock-specific news flow was, however, positive. Aristocrat received favourable reviews from its presentation at the Global Gaming Expo in Las Vegas; CSL reiterated guidance at its AGM and saw a competitor release positive results from the use of Albumin in the treatment of Alzheimer's disease; and post month-end Macquarie released an interim result which beat consensus and increased full year guidance.

Other significant detractors for the month were WorleyParsons (-76 basis point contribution for the month) which had a very large heavily-discounted capital raising to fund the acquisition of Jacobs Engineering's resources arm, Seven Group (-59bp) which was sold off after guidance from Caterpillar in the US fell short of expectations, Nine Entertainment (-42bp) which although confirming its own guidance was hit by a profit downgrade from its merger target Fairfax, and a short position in MYOB after it received a takeover bid.

Not surprisingly our shorts did very well, with Share Price Index futures contracts adding 95bp for the month and individual stock shorts (led by financials, IT and bond proxy stocks) adding 44bp.

Net equity market exposure was increased from 29.9% to 55.0% (72.4% long and 17.4% short), with the key changes being new positions in Westpac, NAB and ANZ, as well as increased weightings in Macquarie Group, CSL and Aristocrat Leisure. This was partly offset by the sale of Bluescope, Nine Entertainment, Service Stream and WorleyParsons.

Fund performance

	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%			-6.22%
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%

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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	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

Contact details

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

* 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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