

Bennelong Kardinia Absolute Return Fund

Monthly performance report

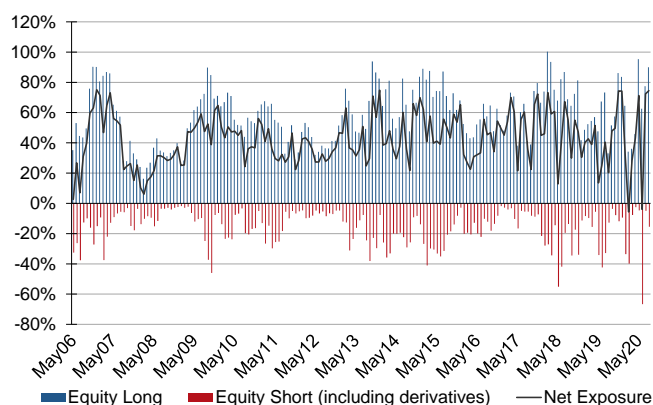
As at 31 August 2020

Fund at a glance

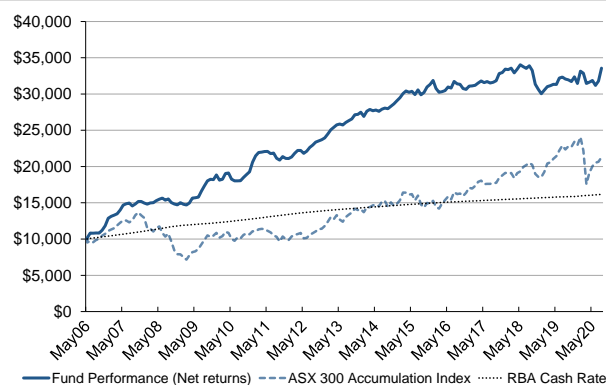
Fund facts	
Strategy	Long-short Australian equity
Process	Fundamental stock selection based on analysis of the macroeconomic environment, company and operating environment, quality of management and valuation
Objective	To achieve consistent positive returns through an investment cycle, with an overarching philosophy of capital protection
Strategy FUM	AUD 141.1 million
Inception date	1 May 2006
Unit price: daily series	1.1105
Unit price: monthly series	1.3057
Fund managers	Kristiaan Rehder, CFA® Stuart Larke, CFA®
Investment Specialist	Mark Burgess, CFA®
Annualised return	8.82%
Total return since inception	235.72%
Annualised standard deviation	7.30%
Sharpe ratio (RFR=RBA cash)	0.74
Percentage of positive months since inception	68.02%

Fund in review

Portfolio exposure analysis



Fund performance



Source: Kardinia Capital

Timeframe	Fund return	RBA Cash Rate + 2% (Perf Fee hurdle)*
1 month	5.63%	0.19%
6 months	2.16%	1.15%
1 year	4.69%	2.05%
3 years p.a.	2.02%	1.66%
5 years p.a.	2.36%	1.68%
Since inception p.a.	8.82%	3.40%

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	%
Zip Co	Financials	4.1%
Fortescue Metals	Materials	4.1%
Charter Hall	Real Estate	3.6%
Harvest Technology	Info Tech	3.1%
JB Hi-Fi	Cons. Discretionary	3.1%
National Aust Bank	Financials	3.0%
Commonwealth Bank	Financials	3.0%
James Hardie	Materials	2.9%
Aristocrat Leisure	Cons. Discretionary	2.9%
Kogan	Cons. Discretionary	2.9%

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Market and fund commentary

The Bennelong Kardinia Absolute Return Fund returned +5.63% in August, above the return of the market (S&P/ASX300 Accumulation Index +3.05%). For the calendar year to 31 August 2020, the Kardinia Fund has returned +6.75%, outperforming the market (S&P/ASX300 Accumulation Index -7.26%).

Key contributors and detractors for the month:

Positive Contributors	Basis Points	Negative Contributors	Basis Points
Zip Co	+127	West African	-44
Pointsbet	+115	Aroa Biosurgery	-17
Harvest Technology	+83	National Australia Bank	-16
Kogan	+67	Pilbara	-16
Charter Hall	+57	Polynovo	-15

The best performers included stocks leveraged to new technologies whilst more defensive stocks lagged. Of the positive contributors, Pointsbet was notable for its 118% rise following the announcement of a 5-year media partnership with NBCUniversal, which boasts the largest sports audience of any US media company. The partnership deal gives NBCUniversal a 4.9% stake in Pointsbet as well as a 5-year option over a further 66.88m shares at an exercise price of \$13.00.

Reporting season

The Australian profit reporting season was better than feared with more beats than misses. According to Macquarie, Australia's EPS fell 20% in FY20, with the largest fall in banks (-32%) and only a small fall in Resources (-2%). The highlights were stocks benefiting from COVID-induced restrictions, including technology stocks whose business model is suited to people working from home, and retail stocks with a product offering suited to working from home (IT equipment, furniture, gaming products) and supported by the shift to online spending and the Federal Government's JobKeeper and JobSeeker supplementary payments.

US Federal Reserve and US Election

At the end of August, the US Federal Reserve announced a new framework suggesting that monetary policy during economic expansions needs to "aim to achieve inflation moderately above 2% for some time." This shift in policy towards a greater toleration of inflation suggests lower rates will persist for some time with no pre-emptive tightening. This should support gold, commodities and other inflation benefiting stocks, as well as equity markets in general. If a deal on a fiscal stimulus plan cannot be agreed between the Republicans and Democrats, it is likely that the US Fed will continue to do the heavy lifting.

We continue to monitor the US election race (election due 3 November 2020), with polls suggesting that the race between Biden and Trump is beginning to tighten. We believe that the closer the outcome, the greater the potential for recounts and disputes resulting in uncertainty for the market.

Market Performance

The Australian equity market rose for the fifth month in a row with the S&P/ASX300 Accumulation Index up 3.05%. This lagged the US market (S&P500 +7.2%, Dow Jones +7.6%, NASDAQ +9.6%) due to the Australian market's lower exposure to technology and higher exposure to banks and materials. Small caps outperformed with the Small Ordinaries Accumulation Index rising 7.24%. Global markets were generally strong (Euro Stoxx 50 +4.5%, MSCI Asia ex Japan +3.2%, FTSE 100 +1.8%). Bond yields reversed course (US 10yr +17bp to 0.71%, Australia 10yr +17bp to 0.98%) driven by rising inflation expectations. The AUD/USD increased 3% to US\$0.74.

Global COVID-19 cases continued to rise with the number of cases increasing from 17.6m last month to 25.6m by 31 August. In Australia, most States appear to have the virus under control apart from Victoria, which imposed a Stage 4 lockdown on Melbourne residents (including a curfew from 8pm to 5am every evening). While new daily cases have fallen from a peak of 725 on 5 August to 76 at 31 August, there is potential for the Stage 4 restrictions to be extended. The renewed lockdown in Victoria has delayed the economic recovery in Australia which we believe will continue to be supported by extraordinary Government and central bank stimulus.

Commodity prices were generally stronger with iron ore up 15% to US\$125/t and copper up 6% to US\$3.04/lb. Brent oil and gold were flat at US\$46/bbl and US\$1967/oz. The best sectors were IT (+15.5%), Consumer Discretionary (+8.7%) and REITs (+7.9%) while Utilities (-4.8%), Communication Services (down 3.8%), and Consumer Staples (-0.4%) lagged.

We increased our net market exposure modestly to 74.5% (90.0% long and 15.5% short), with the key changes being new positions in NRW Holdings, Qantas, Redbubble and Vicinity Centres and increased weightings in Austal, Alumina, Flight Centre and Pointsbet. This was partially offset by a short position in Share Price Index Futures (SPI). The portfolio has a good mix of stocks that benefit from both a lockdown scenario and a re-opening scenario, with more recent additions resulting in a tilt towards a re-opening scenario. We believe good progress is being made on potential vaccines and treatments and Governments will increasingly move towards a "living with the virus" approach as the economic damage from lockdowns becomes apparent. We await the Australian Federal Budget on 6 October with interest.

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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%	-2.15%	1.90%	5.63%					6.75%
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:

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. 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) to request your performance history.

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