

Bennelong Kardinia Absolute Return Fund

Monthly performance report

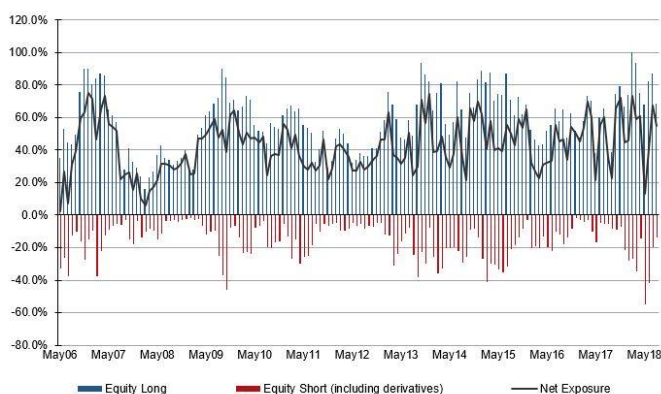
As at 31 August 2018

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 double digit annual rates of return through an investment cycle, with an overarching philosophy of capital protection
FUM	AUD 194.7 million
Inception date	1 May 2006
Unit price: daily series	1.2057
Unit price: monthly series	1.4228
Fund managers	Mark Burgess, CFA® Kristiaan Rehder, CFA®
Annualised return	10.40%
Total return since inception	238.97%
Annualised standard deviation	6.90%
Sharpe ratio (RFR=RBA cash)	0.98
Percentage of positive months since inception	70.95%

Fund in review

Portfolio exposure analysis



Fund performance



Source: Kardinia Capital

Timeframe	Fund return	Benchmark	Value added
1 month	1.08%	0.13%	0.96%
3 months	(0.38%)	0.38%	(0.75%)
6 months	1.02%	0.76%	0.26%
1 year	7.21%	1.51%	5.70%
3 years p.a.	4.29%	1.65%	2.65%
5 years p.a.	5.19%	1.95%	3.23%
Since inception p.a.	10.40%	3.68%	6.73%

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	%
CSL	Health Care	6.0%
Aristocrat Leisure	Consumer Discr.	4.0%
Macquarie Group	Financials	3.7%
Seven Group	Industrials	3.1%
Tabcorp	Consumer Discr.	3.0%
CYBG	Financials	3.0%
Bluescope Steel	Materials	3.0%
Qantas	Industrials	2.6%
Computershare	Info Tech	2.6%
Rio Tinto	Materials	2.5%

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Market and fund commentary

The Australian equity market was focused on reporting season in August, with the S&P/ASX300 Accumulation Index rising 1.40%. Profit results were generally solid, although forward guidance was softer with early signs of cost pressures impacting some companies.

The Australian market also had to navigate a leadership spill and a new Prime Minister, Scott Morrison, who was sworn in on 24 August. The local index underperformed the US market (S&P500 +3.3%) but outperformed European markets (FTSE 100 -3.3%, MSCI Asia ex Japan -0.6%, and Euro Stoxx 50 -3.7%).

Australian economic data was generally solid (retail sales were stronger than market expectations and consumer sentiment and business conditions rose), although dwelling prices fell 1.6% year-on-year. US, European and Chinese economic data were all weaker than expectations.

Oil was stronger (Brent +5% to US\$78/bbl), while bulk commodities were mixed (met coal +7% to US\$184/t, thermal coal -3% to US\$119/t, iron ore -2% to US\$66/t). Base metals were weak (aluminium +2%, copper -3%, nickel -6%, zinc -5%), while gold fell 2% to US\$1,207/oz. The AUD/USD fell 3% to US\$0.72.

The best sectors for the month were Telcos (+13.1%), Information Technology (+12.9%), Health Care (+10.7%) and Consumer Discretionary (+3.5%), while Materials (-4.8%), Energy (-1.2%) and Financials ex REITs (flat) lagged.

The Bennelong Kardinia Absolute Return Fund returned 1.08% in August, with most key positions in the portfolio reporting solid results during profit reporting season.

CSL (+74 basis point contribution for the month) was the biggest individual stock contributor after delivering a profit result that beat its upgraded guidance from May. The result was driven by continued strong immunoglobulin volume growth and market share gains due to the addition of a substantial number of plasma collection centres. Afterpay Touch (+30bp) rallied after raising \$117m via an institutional placement to fund its international expansion strategy in the US and UK, with the US market showing good early momentum. WorleyParsons (+25bp) benefited from several contract wins and a result that demonstrated the upswing in the profit cycle is now well underway. Seven Group (+25bp) delivered a result and guidance that were above consensus expectations, driven by a cyclical upswing in equipment capex and rental demand. Lead indicators in mining and civil markets were positive, with improved forward orders and increasing lead times for equipment.

A2 Milk (+20bp) reported a strong result with net profit up 116% driven by strong infant formula sales growth and market share gains.

In the individual short book, large gains from shorts in a packaging company (+23bp) and a mining stock (+10bp) were offset by shorts in retail, telco and consumer staples stocks.

Origin Energy (-51 basis point contribution for the month) fell after issuing weak FY19 guidance for its Energy Markets business due to electricity hedging costs and the impact of political pressure on energy prices. Rio Tinto (-27bp) pulled back after its result confirmed that cost inflation was beginning to impact profits. This was despite declaring a 15% increase to the dividend and a US\$1b top-up to its existing share buyback. Independence Group (-18bp) fell largely as a result of the fall in the nickel price as its result had been pre-announced. Whitehaven Coal (-16bp) reported a record profit result and announced a 13cps special dividend which exceeded market expectations, however production guidance underwhelmed and thermal coal prices were weaker for the month. BWX (-15bp) fell after downgrading profit guidance due to poor performance from recent acquisitions and a delay to any potential bid for the company as a result of its strategic review. Reliance Worldwide (-15bp) reported an in line result but guidance was below market expectations and the stock fell 11% for the month, despite upgrading expected synergies from the John Guest acquisition.

Net equity market exposure was decreased from 67.3% to 55.2% (68.9% long and 13.7% short), with the key changes being the sale of Westpac, NAB and Origin Energy, partially offset by increased weightings in CSL, Whitehaven Coal and Afterpay and the closure of a short position in Share Price Index Futures.

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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%					1.42%
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.

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: SuperWrap
BT: Wrap, Super Wrap, Panorama, Assemble	Macquarie Wrap: IDPS, Super, Accumulator
CFS: FirstWrap, IX	Netwealth: Super Service, Wrap Service
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

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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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