

Bennelong Kardinia Absolute Return Fund

Monthly performance report

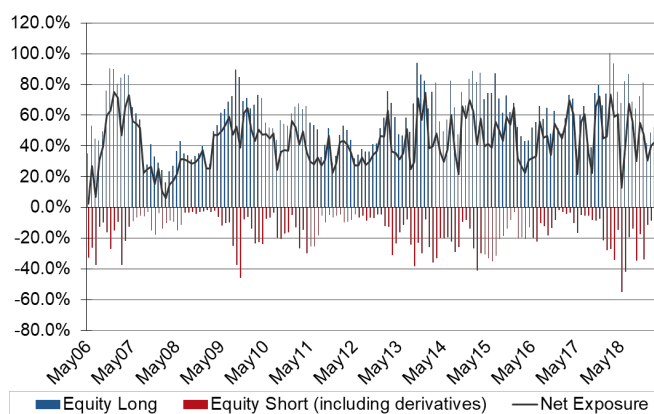
As at 28 February 2019

Fund at a glance

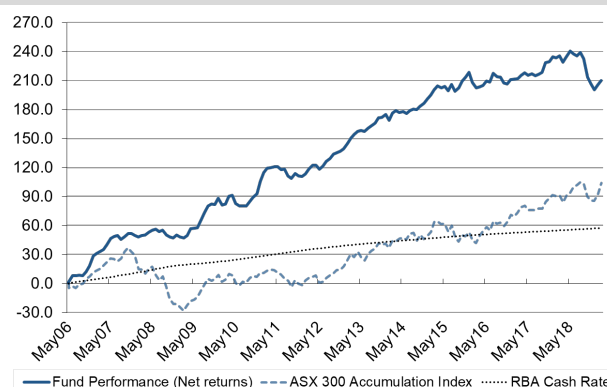
Fund facts	
Strategy	Long-short Australian equity
Process	Fundamental stock selection based on analysis of the macroeconomic environment, company and operating environment, quality of management and valuation
Objective	To achieve returns in excess of 10% per annum through an investment cycle, with an overarching philosophy of capital protection*
FUM	AUD 161.3 million
Inception date	1 May 2006
Unit price: daily series	1.0961
Unit price: monthly series	1.2927
Fund managers	Mark Burgess, CFA® Kristiaan Rehder, CFA®
Annualised return	9.22%
Total return since inception	210.13%
Annualised standard deviation	7.14%
Sharpe ratio (RFR=RBA cash)	0.79
Percentage of positive months since inception	69.48%

Fund in review

Portfolio exposure analysis



Fund performance



Source: Kardinia Capital

Timeframe	Fund return	Benchmark	Value added
1 month	1.55%	0.12%	1.43%
3 months	1.15%	0.37%	0.78%
6 months	(8.51%)	0.75%	(9.25%)
1 year	(7.58%)	1.51%	(9.09%)
3 years p.a.	0.86%	1.56%	(0.70%)
5 years p.a.	2.34%	1.85%	0.49%
Since inception p.a.	9.22%	3.59%	5.63%

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	%
ANZ	Financials	5.3%
Macquarie Group	Financials	4.0%
CSL	Health Care	3.5%
Woodside	Energy	2.8%
South32	Materials	2.8%
James Hardie	Materials	2.5%
Aristocrat Leisure	Cons. Discr.	2.4%
Northern Star	Materials	2.4%
Rio Tinto	Materials	2.2%
Tabcorp	Cons. Discr.	2.1%

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Market and fund commentary

February saw the strong rebound in the Australian equity market continue with the S&P/ASX300 Accumulation Index up 6.01%, making it the best performing major developed market in local currency terms (Euro Stoxx 50 +4.4%, S&P500 +3.2%, FTSE 100 +2.3%, MSCI Asia ex Japan +2.3%).

The strong performance of the Australian market was driven by an expansion in the PE multiple, as the rise occurred despite downgrades to market earnings forecasts following a weaker than expected February profit reporting season. Key themes from the reporting season included a bigger focus on capital management via higher dividends and buybacks, and some signs of cost pressure.

Some key developments during the month included US President Trump postponing an increase in tariffs on goods from China due to "substantial progress" in trade talks, and the Reserve Bank of Australia moving to a neutral policy bias during the month with positive and negative scenarios "more evenly balanced than previously".

US economic activity indicators (manufacturing ISM, non-farm payrolls) remained solid, while both Chinese and European economic data softened. Australian economic data was mixed, with dwelling prices down 6.3% year on year (the worst since March 2009) and retail sales below expectations, but the unemployment rate was steady at 5.0% and consumer confidence and business conditions rebounded.

The oil price had another strong month (Brent +9% to US\$66/bbl), while bulk commodities were mixed (iron ore -1% to US\$85/t, met coal +5% to US\$217/t, thermal coal -4% to US\$93/t). Base metals had a good month (copper +6%, nickel +5%, zinc +3%, aluminium +1%), while gold was weaker (-1% to US\$1,315/oz). The AUD/USD fell 2% to US\$0.71.

The best sectors were Financials ex REITs (+9.1%), Energy (+7.9%) and Information Technology (+7.6%), while Consumer Staples (-1.5%), Health Care (+1.0%) and REITs (+1.8%) lagged.

The Bennelong Kardinia Absolute Return Fund returned 1.55% in February.

ANZ (+44 basis point contribution for the month) was the biggest positive contributor, rising 12% for the month, with a large part of the rise coming after Commissioner Hayne released a more benign than expected Final Report of the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry.

Macquarie Group (+34bp) rose 10% after reiterating full year guidance for NPAT growth of up to 15% at its

operational briefing. Annuity-style businesses were slightly down for the year to date, but market-facing businesses were significantly up. The company also reported a CET1 capital ratio of 10.8% and surplus capital of \$4b. Audinate Group (+31bp), which is a leading provider of professional digital audio networking technologies globally, reported a very strong result above market expectations driven by solid growth in its core chips business, strong demand for its Dante AVIO adapters and the lower AUD. Cleanaway (+29bp) reported a very strong result, driven by organic growth from contract wins as well as early synergies from the TOX acquisition. The company expects volume and price growth to lead to improved margins. Woodside Petroleum (+25bp) rallied after reporting a significant increase in its dividend at its full year result. The stock also benefited from the continuing rebound in the oil price. Rio Tinto (+24bp) reported a solid FY18 result and returned the full \$4b of divestment proceeds received in late 2018 via a special dividend. The company continues to emphasise its value-over-volume strategy and capital discipline.

The short book (-128 basis point contribution for the month) was the biggest detractor, with individual stock shorts in the financial, consumer and healthcare sectors and a short position in Share Price Index Futures the key detractors.

Emeco (-13bp) fell after announcing the surprise purchase of trucks, dozers and graders for \$85-90m (including preparatory costs) in preference to further deleveraging of the balance sheet. It also appears that there was limited organic growth in the first half due to weak utilisation in Western Australia. Evolution Mining (-11bp) fell in line with a weaker gold price after a strong rally over the previous four months. Whitehaven Coal (-8bp) fell 11% after the company downgraded production guidance due to continuing problems at its Narrabri underground coal mine. The stock was also impacted by the fall in the thermal coal price and capital management in the form of a 5cps special dividend that underwhelmed the market. Computershare (-7bp) fell 3% despite reporting 15.5% constant currency EPS growth for 1H19 and upgrading full year guidance from 10% to 12.5% EPS growth. This was driven by strong growth in margin income from higher US corporate activity and growth in register maintenance earnings.

Net equity market exposure was increased from 40.2% to 42.6% (52.4% long and 9.8% short), with the key changes being new positions in ANZ, Goodman Group and James Hardie, the closure of several short positions and increased weightings in South32, Aristocrat Leisure, Computershare and Magellan. This was partly offset by the sale of positions in Woolworths, Transurban, BHP, Alumina and Evolution.

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Fund performance

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2019	1.66%	1.55%											3.23%
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 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, 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 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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