

# Bennelong Kardinia Absolute Return Fund

## Monthly performance report

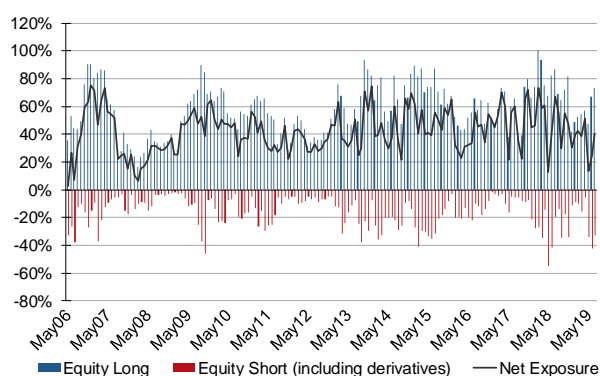
As at 31 July 2019

### Fund at a glance

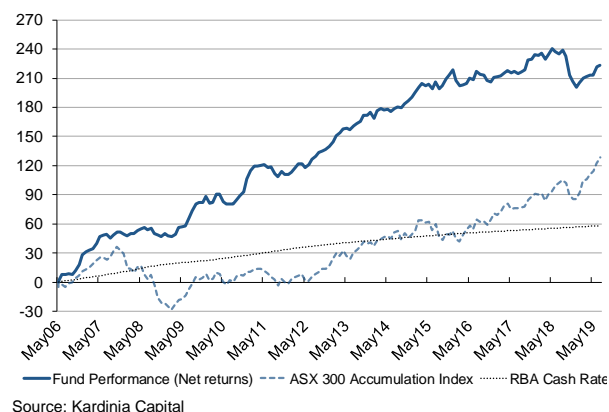
Fund facts	
Strategy	Long-short Australian equity
Process	Fundamental stock selection based on analysis of the macroeconomic environment, company and operating environment, quality of management and valuation
Objective	To achieve returns in excess of 10% per annum through an investment cycle, with an overarching philosophy of capital protection*
FUM	AUD 110.4 million
Inception date	1 May 2006
Unit price: daily series	1.1280
Unit price: monthly series	1.3291
Fund managers	Mark Burgess, CFA® Kristiaan Rehder, CFA®
Annualised return	9.26%
Total return since inception	223.37%
Annualised standard deviation	7.06%
Sharpe ratio (RFR=RBA cash)	0.81
Percentage of positive months since inception	69.81%

### Fund in review

#### Portfolio exposure analysis



#### Fund performance



Timeframe	Fund return	Benchmark	Value added
1 month	0.42%	0.09%	0.34%
3 months	3.22%	0.32%	2.90%
6 months	5.88%	0.69%	5.19%
1 year	(3.57%)	1.45%	(5.02%)
3 years p.a.	0.64%	1.49%	(0.85%)
5 years p.a.	2.99%	1.75%	1.24%
Since inception p.a.	9.26%	3.52%	5.74%

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	%
Commonwealth Bank	Financials	7.8%
Westpac	Financials	6.1%
CSL	Health Care	3.5%
Macquarie Group	Financials	3.4%
Rio Tinto	Materials	2.7%
Atlas Arteria	Industrials	2.6%
Telstra	Comm. Services	2.6%
APA Group	Utilities	2.6%
Chorus	Comm. Services	2.5%
Goodman Group	Real Estate	2.5%

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### Market and fund commentary

The Australian equity market was up for a seventh straight month in July (S&P/ASX300 Accumulation Index +2.97%) with all sectors positive. The local market outperformed global markets (S&P500 +1.4%, Euro Stoxx 50 -0.1%, MSCI Asia ex Japan -1.3%, FTSE 100 +2.2%).

Markets were helped by the US Federal Reserve cutting the Fed Funds rate target by 25bp to 2.00-2.25% and the Reserve Bank of Australia cutting interest rates by 25bp to a record low 1.00%. The US Fed's commentary suggested a low desire for further easing unless warranted by deteriorating economic data, whereas the RBA stated that "the Board is prepared to provide additional support by easing monetary policy further...it is reasonable to expect an extended period of low interest rates." Also helping markets was a dovish turn by the ECB late in the month.

US economic activity indicators were mixed (manufacturing ISM and non-farm payrolls exceeded expectations while average hourly earnings and housing starts missed). Chinese economic data was steady while European data continued to moderate. Australian economic data was generally softer than expected with May retail sales up just 0.1%, the unemployment rate flat at 5.2% and business and consumer confidence both weaker. The housing correction appears to be over for the moment with dwelling prices increasing slightly month on month in July.

The oil price was flat (Brent -0.2% to US\$64/bbl), while bulk commodities were generally weaker (iron ore flat at US\$118/t, met coal -14% to US\$167/t, thermal coal -2% to US\$65/t). Base metals were mixed (nickel +13%, copper -1%, aluminium flat, zinc -6%) while gold continued its positive run (+1% to US\$1,426/oz) helped by low bond yields and continued global uncertainty. The AUD/USD fell 2.5% to US\$0.685.

The best sectors were Consumer Staples (+9.8%), Health Care (+5.9%) and Information Technology (+5.0%) while Materials (+1.0%), Energy (+1.7%) and Financials (+1.7%) lagged.

The Bennelong Kardinia Absolute Return Fund returned 0.42% in July driven by gold, industrials and key healthcare stocks.

A2 Milk (+40 basis point contribution for the month) was the biggest positive contributor as the company's infant milk formula continues to win market share and pricing improves driven by strong end customer demand.

Evolution (+30bp) and Northern Star (+23bp) continued to rally driven by the strong gold price. Both companies reported slightly soft quarterlies during the month with

Evolution missing market expectations on costs and Northern Star missing on both production and costs.

Magellan Financial Group (+22bp) was up 21% after announcing 28% growth in average funds under management for FY19, continuing net inflows and estimated performance fees of \$83m for the year. CSL (+21bp) rose 7% due to market expectations of strong IG growth (assisted by competitor supply constraints) and a solid start to the year for its Seqirus flu business given it was first to market in the Northern Hemisphere (due to competitor shipment delays).

Polynovo (+13bp) was driven by increasing market awareness of its biodegradable skin regeneration polymer for severe burns and wounds. The company, which is net cash and operating close to breakeven, has been expanding its sales team globally and expects CE Mark approval in the near term which will enable it to sell its products into Europe and other markets. The company confirmed strong sales growth in 4Q19 shortly after month end.

The biggest detractor was a short position in Share Price Index Futures (-63 basis points for the month) and the individual short book (-46bp).

Next Science (-23bp), which manufactures a range of anti-bacterial biofilm products, fell 26% on limited newsflow. Nearmap (-19bp), which has market leadership in the production of high-resolution aerial imagery, fell 11% after announcing weaker than expected growth in annualized contract value. This metric was still up a strong 76% in North America and 19% in Australia/NZ and the company continues to expand its subscription-based model into large global markets (US & Canada).

Rio Tinto (-19bp) fell following a soft quarterly production report, with production guidance reiterated but cost guidance increased. The key negative surprise was a large increase in estimated capex for Rio's Oyu Tolgoi underground copper development in Mongolia.

Audinate Group (-10bp) announced the commercial availability of its new Dante audio visual products, marking the beginning of video capabilities in its flagship Dante product suite, however the stock fell 7% after a strong run in the share price over the prior 6 months (+132%).

Net equity market exposure was increased from 24.9% to 40.5% (73.3% long and 32.8% short), with the key changes being a new long position in Westpac and increased weightings in Commonwealth Bank, James Hardie, Xero, A2 Milk and Macquarie Group. This was partly offset by the sale of NAB and Next Science and four new individual stock shorts in the financials and resources sectors.

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### Fund performance

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2019	1.66%	1.55%	0.46%	0.55%	-0.03%	2.82%	0.42%						7.64%
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](http://kardiniacapital.com.au)

### How to invest

The Fund is open to investors directly via the PDS (available at [kardiniacapital.com.au](http://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 Wealthtrac

Hub 24: Super, IDPS Wealth O2

\* 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](mailto: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](mailto:client.services@bennelongfunds.com)) to request your performance history.

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