

# Bennelong Kardinia Absolute Return Fund

## Monthly performance report

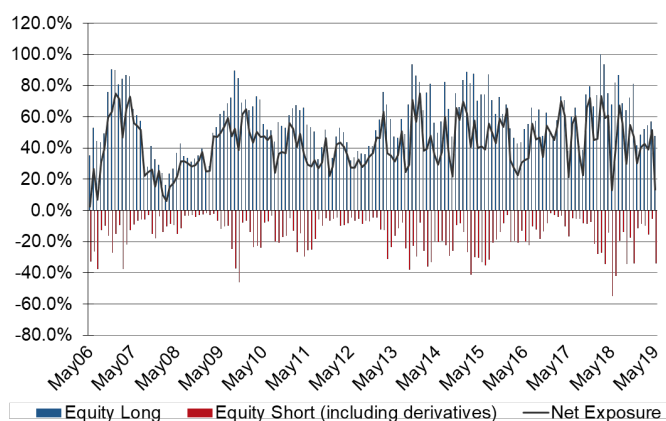
As at 31 May 2019

### Fund at a glance

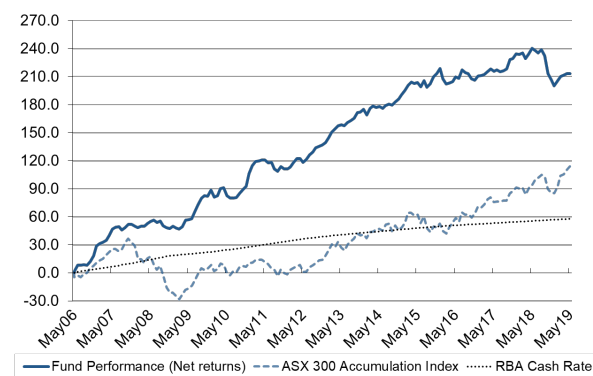
Fund facts	
Strategy	Long-short Australian equity
Process	Fundamental stock selection based on analysis of the macroeconomic environment, company and operating environment, quality of management and valuation
Objective	To achieve returns in excess of 10% per annum through an investment cycle, with an overarching philosophy of capital protection*
FUM	AUD 135.3 million
Inception date	1 May 2006
Unit price: daily series	1.1073
Unit price: monthly series	1.3054
Fund managers	Mark Burgess, CFA® Kristiaan Rehder, CFA®
Annualised return	9.12%
Total return since inception	213.18%
Annualised standard deviation	7.08%
Sharpe ratio (RFR=RBA cash)	0.79
Percentage of positive months since inception	69.43%

### Fund in review

#### Portfolio exposure analysis



### Fund performance



Source: Kardinia Capital

Timeframe	Fund return	Benchmark	Value added
1 month	(0.03%)	0.13%	(0.15%)
3 months	0.98%	0.38%	0.61%
6 months	2.15%	0.75%	1.40%
1 year	(7.96%)	1.51%	(9.47%)
3 years p.a.	0.38%	1.52%	(1.15%)
5 years p.a.	2.42%	1.80%	0.62%
Since inception p.a.	9.12%	3.55%	5.56%

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	3.2%
Goodman Group	Real Estate	2.5%
Charter Hall	Real Estate	2.5%
CSL	Health Care	2.3%
Northern Star	Materials	2.2%
APA Group	Utilities	2.1%
Aristocrat Leisure	Cons. Discr.	2.1%
Rio Tinto	Materials	2.0%
Atlas Arteria	Industrials	2.0%
Evolution	Materials	2.0%

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### Market and fund commentary

The Australian equity market was up for a fifth straight month in April (S&P/ASX300 Accumulation Index +1.75%), strongly outperforming global markets (MSCI Asia ex Japan -7.9%, S&P500 -6.4%, Euro Stoxx 50 down 5.1%, FTSE 100 -2.9%).

The key global macro news for the month was the announcement by US President Donald Trump that the previous tariffs of 10% levied on \$200b of Chinese goods would be raised to 25% after the breakdown of trade talks between the US and China. China responded by increasing tariffs on US goods. Domestically, the Coalition pulled off a surprise victory in the Australian Federal Election on 18 May despite trailing in every poll since the last election.

US economic activity indicators were mixed (manufacturing ISM missed expectations while non-farm payrolls beat), while Chinese and European economic data both continued to slow. Australian economic data was mixed, with retail sales data better than expected but dwelling prices were down 7.3% year on year (the worst since January 2009) and 1Q economic data (including private capex and construction work done) was generally below expectations. The unemployment rate increased to 5.2%, increasing the prospect of a rate cut by the Reserve Bank of Australia (with a 25bp cut subsequently delivered in June).

The oil price fell significantly (Brent -14% to US\$62/bbl), while bulk commodities were mixed (iron ore +6% to US\$100/t, met coal -1% to US\$204/t, thermal coal -14% to US\$72/t). Base metals were weak given global growth concerns (copper -10%, zinc -9%, nickel -3%, aluminium -3%), while gold rebounded (+2% to US\$1,311/oz). The AUD/USD fell 2% to US\$0.69.

The best sectors were Telcos (+7.3%), Health Care (+3.3%) and Materials (+3.1%), while Consumer Staples (-4.2%), IT (-4.0%) and Energy (-3.8%) lagged.

The Bennelong Kardinia Absolute Return Fund was flat in May, with short positions in banks the key detractors given the strong rally following the unexpected Coalition victory in the federal election.

Evolution Mining (+33 basis point contribution for the month) was the biggest positive contributor, rising 21% on the back of increased global uncertainty and a positive month for gold. Northern Star (+29bp) benefited from the same theme.

Audinate Group (+32bp), which is a leading provider of professional digital audio networking technologies globally, rose 28% as the market began to appreciate the strong growth in products that include its audio over IP networking solution.

Polynovo (+19bp), which manufactures a biodegradable skin regeneration polymer for severe burns and wounds, was up 16% for the month after reporting its first million dollar sales month for April, closely followed by a second million dollar month in May. This is a significant milestone for the company given it means the company is now operating around breakeven.

Aristocrat Leisure (+19bp) reported a good 1H19 profit result above market expectations, driven by strong momentum in the US land-based business and an in-line result from the digital business. The company reiterated earnings guidance for the full year, with a skew to the second half due to the timing of new games releases.

The short book (-90 basis point contribution for the month) was the biggest detractor, driven by short positions in two of the major four banks as well as a short position in Share Price Index Futures. The market, led by the major banks, had a strong rally following the surprise Coalition election victory given the Coalition's more market friendly policies. The impact of these short positions offset successful shorts in two food-related stocks.

Macquarie Group (-35bp) reported a solid FY19 profit result, but guidance for FY20 profit to be slightly down on FY19 was below consensus expectations. This was the first time in 10 years that the company has guided down at their result and the stock fell 11% for the month.

A2 Milk (-18bp) was weaker after the company suggested that Chinese regulatory changes due at the end of Q3 had pulled forward some demand and would balance out through Q4. There were also some concerns in the market over weaker website pricing for Australian-label stages 2 and 3 a2 Platinum infant formula. Oz Minerals (-15bp) was impacted by the large fall in the copper price on concerns about global growth.

Net equity market exposure was decreased from 51.5% to 13.5% (47.6% long and 34.1% short), with the key changes being the sale of Bluescope, Fortescue and WorleyParsons and a large increase in our short position in Share Price Index Futures. This was partly offset by new positions in Evolution Mining and Flight Centre and increased weightings in Commonwealth Bank, Polynovo and Northern Star.

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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%								4.25%
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, Employee Super, Infinity Macquarie Wrap: IDPS, Super

BT: Wrap, Super Wrap, Assemble Netwealth: Super Service, 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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