

# Bennelong Kardinia Absolute Return Fund

## Monthly performance report

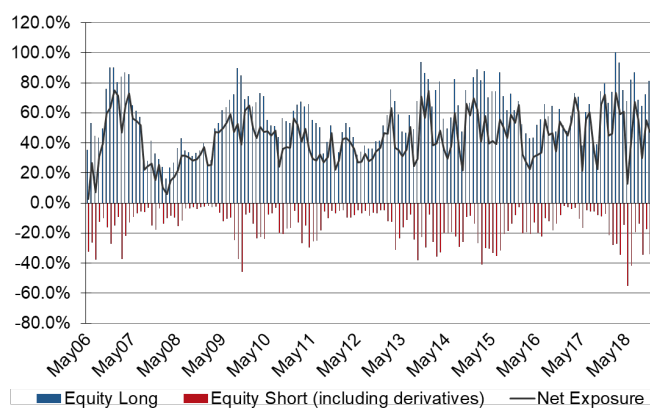
As at 30 November 2018

### Fund at a glance

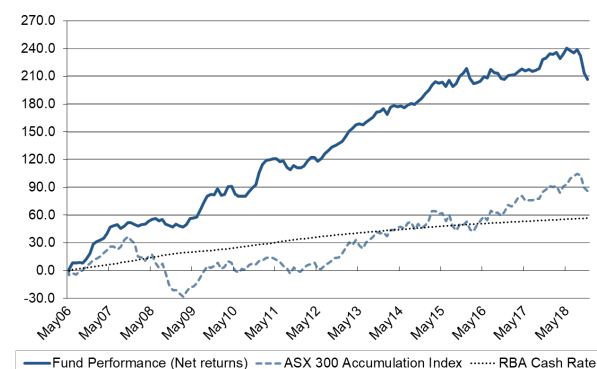
Fund facts	
Strategy	Long-short Australian equity
Process	Fundamental stock selection based on analysis of the macroeconomic environment, company and operating environment, quality of management and valuation
Objective	To achieve returns in excess of 10% per annum through an investment cycle, with an overarching philosophy of capital protection*
FUM	AUD 171.4 million
Inception date	1 May 2006
Unit price: daily series	1.0908
Unit price: monthly series	1.2869
Fund managers	Mark Burgess, CFA® Kristiaan Rehder, CFA®
Annualised return	9.31%
Total return since inception	206.60%
Annualised standard deviation	7.16%
Sharpe ratio (RFR=RBA cash)	0.79
Percentage of positive months since inception	69.54%

### Fund in review

#### Portfolio exposure analysis



### Fund performance



Source: Kardinia Capital

Timeframe	Fund return	Benchmark	Value added
1 month	(2.18%)	0.12%	(2.31%)
3 months	(9.55%)	0.37%	(9.92%)
6 months	(9.89%)	0.75%	(10.64%)
1 year	(6.96%)	1.51%	(8.47%)
3 years p.a.	(0.71%)	1.60%	(2.31%)
5 years p.a.	2.44%	1.90%	0.53%
Since inception p.a.	9.31%	3.64%	5.68%

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	9.1%
NAB	Financials	8.9%
Westpac	Financials	8.6%
Macquarie Group	Financials	7.5%
CSL	Health Care	6.5%
CBA	Financials	5.0%
BHP	Materials	3.4%
Computershare	Info Tech	3.1%
Magellan Financial	Financials	3.0%
Nine Entertainment	Comm. Services	3.0%

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### Market and fund commentary

November was another weak month for the Australian equity market and the Bennelong Kardinia Absolute Return Fund, with the S&P/ASX300 Accumulation Index falling 2.18%, underperforming global markets (S&P500 +2.0%, FTSE 100 -1.6%, Euro Stoxx 50 -0.7%, MSCI Asia ex Japan +4.0%).

Key global newsflow for the month included the US midterm elections, which saw the Democrats win control of the House of Representatives but the Republicans maintain control of the Senate, and dovish comments from the US Federal Reserve Chair Jerome Powell, who stated that interest rates “remain just below the broad range of estimates of the level that would be neutral”. US 10-year Treasury bond yields rallied hard, with yields falling 14bp over the month to 2.99%. UK Prime Minister Theresa May also announced a Brexit deal on 15 November.

US, Chinese and European economic data generally softened during the month. Australian economic data was below expectations (dwelling prices down 4.1% year on year which is the worst since 2011, retail sales were weak, construction work fell, but employment data remained solid).

The oil price fell sharply (Brent -21% to US\$59/bbl), while bulk commodities were generally weaker (iron ore -13% to US\$65/t, met coal +3% to US\$226/t, thermal coal -4% to US\$100/t). Base metals were mixed (aluminium -1%, copper +3%, nickel -5%, zinc +1%), while gold rose 1% to US\$1,226/oz. The AUD/USD rose 3% to US\$0.73.

The best sectors were Financials ex REITs (+1.4%), Information Technology (+1.0%) and REITs (-0.4%), while Energy (-10.3%), Consumer Discretionary (-5.1%) and Materials (-4.8%) lagged.

The Bennelong Kardinia Absolute Return Fund fell 2.18% in line with the Australian market as quality growth stocks such as Aristocrat and CSL hurt performance.

The biggest positive contributor was a short position in Share Price Index futures (+48 basis point contribution for the month). The individual stock short book also performed well (+21bp) with shorts in the telco, health insurance and automotive retail sectors the key contributors.

ANZ (+37bp) reported a solid result in line with market expectations, driven by good cost management and strong organic capital generation. Netwealth (+28bp) increased 22% after a largely positive AGM update that confirmed an expanding addressable market, a continued increase in net inflows, flat EBITDA margins (despite price competition) and minimal revenue impact from the recent equity market correction.

National Australia Bank (+26bp) delivered a profit result that was broadly in line with market expectations, driven by market share gains in mortgages and small and medium enterprises. Qantas (+19bp) benefited from a sharp fall in the oil price (down 21% on concerns over global growth and supply).

Aristocrat Leisure (-65bp contribution for the month) was the biggest detractor after missing market expectations for its FY18 profit result. Net profit after tax (before amortisation) increased a strong 34%, but the market was unwilling to pay now for the potential ramp up in earnings from new mobile games which are expected to feature in the latter part of FY19.

CSL (-48bp) fell 6% as IVIG growth started to cycle some strong comparisons from last year, despite reiterating guidance at its AGM in October and the release by a competitor of positive results from the use of Albumin in the treatment of Alzheimer’s disease. Whitehaven Coal (-43bp) fell in response to the fourth consecutive monthly decline in the thermal coal price.

Seven Group (-41bp) fell on concerns that a peak in demand for mining equipment may have been reached as the outlook for global growth became more uncertain, as well as the impact of the lower oil price on its investment in Beach Energy. Computershare (-31bp) fell despite confidently reaffirming its FY19 profit guidance for 10% earnings per share growth as the market began to factor in the potential for fewer than expected interest rate rises (a key driver of margin income) going forward.

Net equity market exposure was reduced from 55.0% to 47.3% (81.3% long and 34.0% short), with the key changes being new positions in Commonwealth Bank, James Hardie, Nine Entertainment and Woodside Petroleum, increased weightings in ANZ and NAB, offset by the sale of Whitehaven Coal and CYBG, seven new individual stock short positions and an increased short position in Share Price Index Futures contracts.

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	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%	-1.93%	-5.71%	-2.18%		-8.27%
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](http://kardiniacapital.com.au)), or a range of platforms.

### 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)

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

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