

Bennelong Kardinia Absolute Return Fund

Monthly performance report

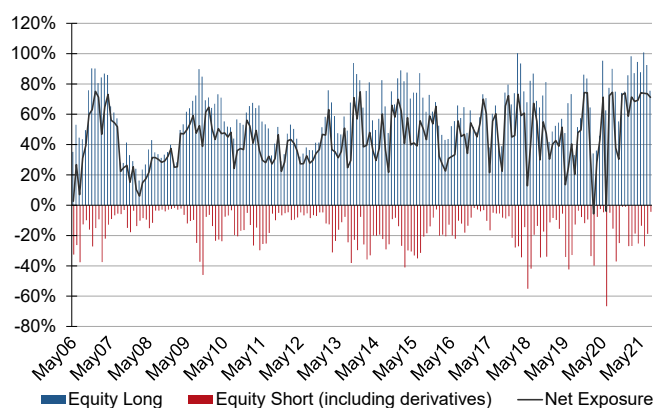
As at 31 August 2021

Fund at a glance

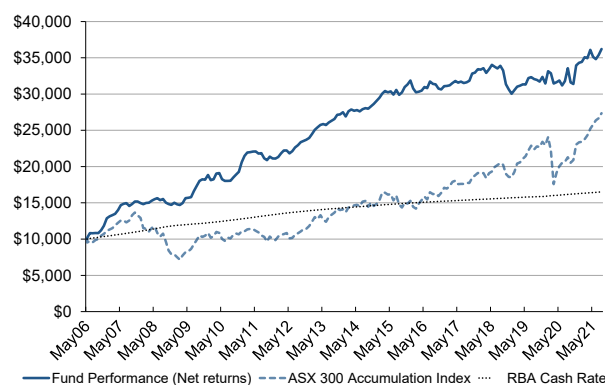
Fund facts	
Strategy	Long-short Australian equity
Process	Fundamental stock selection based on analysis of the macroeconomic environment, company and operating environment, quality of management and valuation
Objective	To achieve consistent positive returns through an investment cycle, with an overarching philosophy of capital protection
Strategy FUM	AUD 90.3 million
Inception date	1 May 2006
Unit price: daily series	1.0491
Unit price: monthly series	1.2333
Fund managers	Kristiaan Rehder, CFA® Stuart Larke, CFA®
Investment Specialist	Mark Burgess, CFA®
Annualised return	8.75%
Total return since inception	262.02%
Annualised standard deviation	7.63%
Sharpe ratio (RFR=RBA cash)	0.71
Percentage of positive months since inception	67.39%

Fund in review

Portfolio exposure analysis



Fund performance



Source: Kardinia Capital

Timeframe	Fund return	RBA Cash Rate + 2% (Perf Fee hurdle)*
1 month	2.35%	0.18%
6 months	3.22%	1.06%
1 year	7.83%	2.15%
3 years p.a.	2.22%	1.87%
5 years p.a.	2.88%	1.72%
Since inception p.a.	8.75%	3.32%

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 inception date of the Fund is 1 May 2006.

*The Performance Fee Hurdle is the RBA cash rate plus 2%. Prior to 2 December 2019 it was the RBA Cash Rate.

Largest holdings	Sector	%
Commonwealth Bank	Financials	6.8%
Family Zone	Info Tech	3.2%
Proteomics	Health Care	3.1%
Afterpay	Info Tech	3.1%
East 33	Consumer Staples	3.1%
James Hardie	Materials	3.0%
NAB	Financials	2.9%
Uniti Group	Comm. Services	2.9%
Aristocrat Leisure	Cons. Discretionary	2.7%
Charter Hall	REITs	2.7%

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Market and fund commentary

The Bennelong Kardinia Absolute Return Fund returned +2.35% in August, with the market up for the eleventh month in a row (S&P/ASX300 Accum Index +2.61%).

Key contributors and detractors for the month:

Positive Contributors	Basis Points	Negative Contributors	Basis Points
Afterpay	+118	Fenix Resources	-111
Family Zone	+101	East 33	-71
Pilbara Minerals	+93	Fortescue Metals	-56
Uniti Group	+59	Harvest Technology	-43
Dubber	+50	Proteomics	-29

The Fund's technology exposures were the strongest performers for the month, led by Afterpay which agreed to be acquired by Square in a \$39b deal, the largest ever Australian M&A deal. The bid was pitched at ~30% premium to the prevailing price, with Square to initiate a secondary listing on the ASX. This wasn't the only M&A deal for the month, with Oil Search and Santos agreeing to a \$22b merger.

Family Zone, which provides cyber safety services to schools and parents, rose 28% after announcing the acquisition of Smoothwall, the leading UK provider of digital safety solutions to schools, for \$142m. The Fund participated in the \$146m equity raising which was undertaken to fund the acquisition. We have a positive view of the deal, believing it adds significant scale, products, cross-selling opportunities and other synergies/cost savings to the combined group.

Dubber, which provides call recording and voice intelligence cloud services to clients including Microsoft, Zoom, Telstra, Cisco and Verizon, announced a \$110m equity raising at the end of last month to advance growth and M&A opportunities. The company also announced a strong FY21 profit result with annual recurring revenue up 142%, subscribers up 118% (to more than 420,000) and expectations of an acceleration in growth in FY22.

The negative contributors this month were concentrated in our iron ore exposures, which suffered due to the 18% fall in the iron ore price during the period. We have reduced our exposure to iron ore but believe the long-term outlook is solid.

The best sectors for the month were Information Technology (+17.0%), Consumer Staples (+6.9%) and Health Care (+6.8%). Materials (-7.3%), Energy (-3.9%) and Utilities (+1.0%) lagged.

Commodity prices were weaker with iron ore down US\$34/t to US\$156/t and Brent oil down 4% to

US\$73/bbl. Copper was down 2% to US\$4.38/lb while gold was flat at US\$1814/oz.

Reporting Season

The Australian profit reporting season was a solid one, with UBS suggesting a beats to misses ratio of 2.33x and an upgrade to downgrade ratio of 1.7x. This normally bodes well for future market returns. Dividends were also strong, including CBA's announcement that it would return \$10b to shareholders via dividends and a \$6b off-market buyback.

Profit results tells us a lot about what life has been like for Australians over the past 12 months. The shift from bricks and mortar to online sales has accelerated for the retail sector, auto sales have gone through the roof (reversing a three-year downtrend) and spending on renovations has also been strong, driven by the Federal Government's Homebuilder program. Internet data usage has swelled as a fast and reliable internet connection has now become an essential commodity.

On the negative side, it is no surprise that the travel companies have generally reported substantial losses given Government lockdowns during the period (Qantas \$1.8b loss, Flight Centre \$507m loss, Corporate Travel \$33m loss).

A key theme of reporting season has been online retailers ending up with too much inventory. Everyone seems to want to 'invest' in inventory as a strategic play. A stretched global manufacturing and supply chain is creating challenges – including longer lead times, higher freight costs and shipping delays – leading to companies growing inventory levels.

However, we do not want inventory growth outstripping sales growth, and this is something we'll be watching closely in future periods. Retailers (BRG, SUL, KGN) continue to show higher levels of inventory and it's concerning us. Only JBH and BBN have managed to keep inventory days down so far. Whether customers will be the major beneficiaries of heightened promotion activity (for inventory vulnerable to obsolescence such as technology) remains unknown; only time will tell.

Outlook

With COVID vaccinations accelerating across the country, we believe Australians can look forward to a happier 2022. We predict the 70% threshold for double vaccinations will be reached by the end of October, which will be around the same time as AGM season. Our view is CEOs will start to get more optimistic around this event. This is likely to continue the rotation towards coronavirus-impacted sectors. The Kardinia portfolio is positioned for re-opening, with stocks that benefit from this comprising ~25% of the long book.

We kept our net market exposure relatively steady during the month at 71.1% (75.5% long and 4.4% short). Key exposures are technology, offshore earners and re-openers.

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Fund performance

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2021	0.32%	1.86%	-0.36%	3.26%	-2.64%	-0.90%	1.60%	2.35%					5.49%
2020	5.40%	-0.86%	-4.32%	0.63%	0.73%	-2.15%	1.90%	5.63%	-5.88%	-0.70%	8.21%	1.07%	9.13%
2019	1.66%	1.55%	0.46%	0.55%	-0.03%	2.82%	0.42%	-0.83%	-0.35%	-0.73%	2.04%	-2.84%	4.68%
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 Experience 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	Macquarie Wrap: IDPS, Super
BT Asgard: Master Trust, eWrap, Employee Super, Infinity	Netwealth: Super Service, Wrap Service, IDPS
BT: Panorama	Oasis: Wealthtrac, Dominion
CFS: FirstChoice, FirstWrap, IX (PIS)	Powerwrap: Super, Pension, Smartwrap
Hub 24: Super, IDPS	Wealthtrac
IOOF: Portfolio Services	Wealth O2
Mason Stevens	

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 Experience on 1800 895 388 (AU) or 0800 442 304 (NZ) or client.experience@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 Apex Fund Services (Sydney) Pty Limited (Apex).
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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