

Bennelong Kardinia Absolute Return Fund

Performance report | 31 January 2022

Net client returns (after fees and expenses)

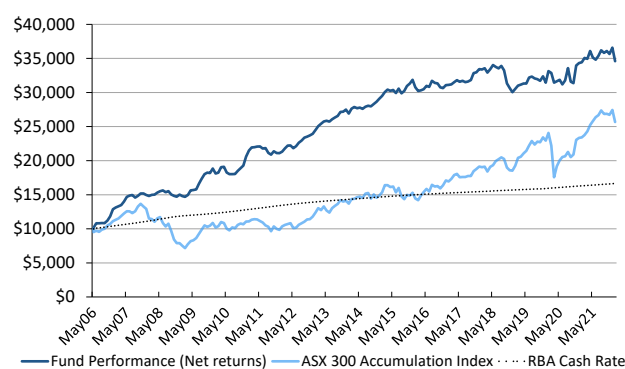
	1 mth	6 mths	1 year	3 years p.a.	5 years p.a.	Since inception ³ p.a.
Fund ¹	(5.44%)	(2.21%)	0.46%	4.23%	2.13%	8.20%
Benchmark ²	0.18%	1.06%	2.12%	1.95%	1.78%	3.29%

Performance figures are net of fees and expenses.
Past performance is not indicative of future performance.

The 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
Investment objective	To achieve consistent positive returns through an investment cycle, with an overarching philosophy of capital protection
Strategy FUM	AUD 78.0 million
Inception date ³	1 May 2006
Unit price: daily series	1.0028
Unit price: monthly series	1.1783
Fund managers	Kristiaan Rehder, CFA® Stuart Larke, CFA®
Investment specialist	Mark Burgess, CFA®
Annualised return	8.20%
Total return since inception	245.87%
Annualised standard deviation	7.73%
Sharpe ratio (RFR=RBA cash)	0.63
Percentage of positive months since inception	66.67%

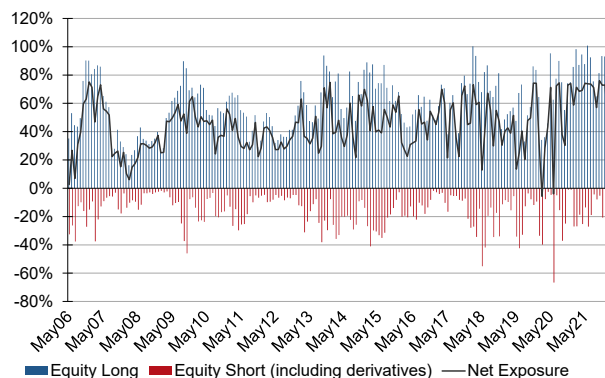
Historical performance



Largest holdings

Holding	Sector	Weight
ANZ	Financials	6.9%
Commonwealth Bank	Financials	4.4%
National Australia Bank	Financials	3.8%
Proteomics	Health Care	3.6%
Santos	Energy	3.5%
Worley	Energy	3.4%
East 33	Consumer Staples	3.3%
Macquarie Group	Financials	2.6%
Uniti Group	Comm. Services	2.5%
James Hardie	Materials	2.4%

Portfolio exposure analysis



Market and fund commentary

The Bennelong Kardinia Absolute Return Fund fell 5.44% in January, with the market also falling heavily (S&P/ASX300 Accum Index -6.45%) as concerns grew over potential tighter monetary policy from central banks this year. Bond yields jumped during the month (US 10-year bond yield +26bp to 1.78% and Australian 10-year bond yield +22bp to 1.89%). Shares trading on high multiples (eg. technology sector), those with long-dated earnings and lossmaking stocks were most harshly dealt with.

The best sectors for the month were Energy (+7.9%), Utilities (+2.6%) and Materials (+0.8%). Information Technology (-18.4%), Health Care (-12.1%) and Consumer Staples (-9.6%) lagged.

Global markets were also weak (S&P500 -5.2%, Euro Stoxx 600 -2.7%, MSCI Asia ex Japan -2.7%, FTSE 100 +1.1%).

Key contributors and detractors for the month:

Positive contributors	Basis points	Negative contributors	Basis points
Short Book	+399	East 33	-89
Santos	+20	CBA	-76
Worley	+9	Neometals	-61
Sandfire	-2	Charter Hall	-55
Seven Group	-3	Centuria Capital	-49

The Short Book was the strongest contributor to returns, with a short in Share Price Index Futures contributing 279bp and individual stock shorts contributing 120bp. The bulk of our individual stock short book comprises lower quality technology companies and lossmaking companies. These stocks suffered a significant de-rating during the month and we expect this to continue given rising inflation and the increasing likelihood of tighter monetary policy during CY22.

Santos rose 13% on the back of the strong rise in the oil price. The company also reported a solid 4Q result in line with market expectations. The company has now completed the acquisition of Oil Search (December 2021). We expect

CY22 production guidance to be released at the company's full year result in February. Worley was another beneficiary of the strong oil price, with energy projects more likely to proceed in a rising price environment.

East 33, Australia's largest vertically integrated Sydney rock oyster producer, was negatively impacted by labour shortages and lockdowns in NSW and Victoria during 4QCY21, which is traditionally the company's strongest quarter. Volumes harvested were lower than prospectus forecast due to the labour shortage, and we expect the benefit of recent price rises to be offset by higher labour costs in the near-term.

CBA fell 7% in a weak market. Following a weak 1Q trading update in November which highlighted a sharp reduction in margins, we will be focused closely on CBA's volume, margins and expense growth in the February result.

Neometals fell 8% as it retraced some of the strong gains seen in recent months (+67% in Dec quarter). There was no company-specific newsflow during the month, but the share price may have been impacted by the selloff in companies with long-dated earnings prospects. The company continues to make strong progress on its lithium-ion battery recycling project with demonstration plant trials commissioned.

Charter Hall (-19%) and Centuria (-15%) were impacted by the rise in bond yields. With the US Federal Reserve signaling an earlier start to monetary tightening we saw real yields move sharply higher. This particularly impacted real estate companies with long duration cashflow.

Commodity prices were solid with iron ore up another 20% to US\$144/t due to restocking before the Chinese New Year while Brent oil rose 17% to US\$91/bbl driven by global supply concerns. Copper fell 3% to US\$4.32/lb. Gold was down 2% to US\$1797/oz. The A\$/US\$ fell 3% to US\$0.71.

Economic data was mixed (December employment +65k, unemployment 4.2%, house prices +1.0%, NAB business confidence -12.4 due to Omicron uncertainty). The key focus of markets was the 4Q21 inflation data, which printed at a much higher than expected +1.3% (qoq), up sharply on 3Q21 (+0.8%) and 2Q21 (+0.8%).

Outlook & Positioning

We cut our net exposure from 73.0% to 40.1%, with the key changes being a significant reduction in our major bank holdings and an increase in the size of our short book, with several new shorts in lower quality high multiple technology stocks and a larger short in Share Price Index Futures.

The largest exposures for the Fund continue to be the major banks, resources and offshore earners. Given rising inflation and rising bond yields, we have lower exposure to rate-sensitive sectors, loss-making stocks and expensive lower quality technology companies. These stocks continue to form the bulk of our Short Book. We believe a potential tapering of quantitative easing by the US Federal Reserve and possible interest rate rises is the key issue for markets in calendar year 2022.

Fund performance⁴

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2022	-5.44%												-5.44%
2021	0.32%	1.86%	-0.36%	3.26%	-2.64%	-0.90%	1.60%	2.35%	-1.08%	0.79%	-1.20%	2.58%	6.58%
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%

How to invest

The Fund is open to investors directly via the PDS (available on our [website](#)), or the following platforms.

Platforms

AMP (Elements Investment, Elements Pension, My North, North, Portfolio Care, Portfolio Care eWrap, PPS, Weathview eWrap Inv)	IOOF (Portfolio Services)
BT Asgard (Master Trust, Employee Super, Infinity eWrap)	Macquarie Wrap (IDPS, Super)
BT (Panorama)	Mason Stevens
CFS (FirstChoice, FirstWrap, IX (PIS))	Netwealth (Super Service, Wrap Service, IDPS)
Hub 24 (Super, IDPS)	Oasis (Wealthtrac)
	Powerwrap (Super, Pension, Smartwrap)
	Wealthtrac
	Wealth O2

Get in touch



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- Performance results are 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 plus 2%. Prior to 2 December 2019 it was the RBA cash rate.
- The inception date of the Fund is 1 May 2006. The Fund was launched by another trustee, and the performance data also relates to this strategy. Bennelong Funds Management Ltd assumed responsibility on 16 August 2011.
- Performance data is historical data based on the main series using a monthly unit pricing methodology. If you are invested in the daily series, please contact Client Experience (1800 895 388 or client.experience@bennelongfunds.com) to request your performance history.

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