

# Bennelong Kardinia Absolute Return Fund

Performance report | 31 October 2022

## Net client returns (after fees and expenses)

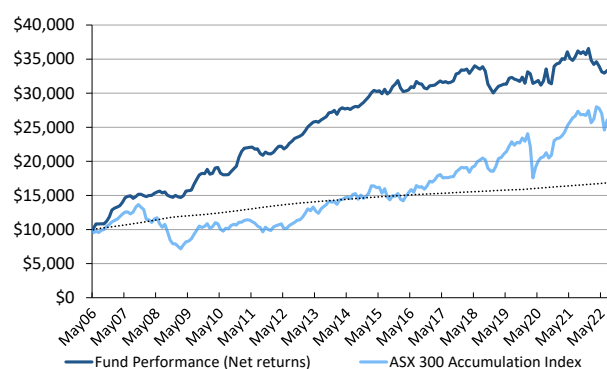
	1 mth	6 mths	1 year	3 years p.a.	5 years p.a.	Since inception <sup>3</sup> p.a.
Fund <sup>1</sup>	1.47%	1.94%	(4.09%)	2.95%	1.06%	7.82%
Benchmark <sup>2</sup>	0.39%	1.77%	2.84%	2.41%	2.01%	3.28%

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 61.7 million
Inception date <sup>3</sup>	1 May 2006
Unit price: daily series	0.9564
Unit price: monthly series	1.1232
Fund managers	Kristiaan Rehder, CFA® Stuart Larke, CFA®
Investment specialist	Mark Burgess, CFA®
Annualised return	7.82%
Total return since inception	246.15%
Annualised standard deviation	7.63%
Sharpe ratio (RFR=RBA cash)	0.59
Percentage of positive months since inception	66.16%

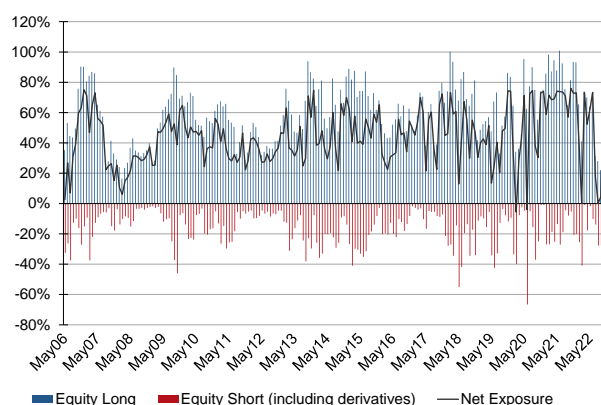
## Historical performance<sup>2</sup>



## Largest holdings

Holding	Sector	Weight
NAB	Financials	7.4%
AMP	Financials	6.3%
ANZ	Financials	5.3%
BHP Group	Materials	4.6%
Macquarie Group	Financials	4.2%
HUB24	Financials	3.6%
Challenger	Financials	3.4%
JB Hi-Fi	Cons Discr	3.3%
Webjet	Cons Discr	3.2%
Cochlear	Health Care	3.2%

## Portfolio exposure analysis



## Market and fund commentary

The Bennelong Kardinia Absolute Return Fund returned +1.47% in October, with the market also up strongly (S&P/ASX300 Accum Index +5.96%). Global markets were also generally strong (Euro Stoxx 600 +9.1%, S&P500 +8.1%, FTSE 100 +3.0%, MSCI Asia ex Japan -5.7%).

The rebound from last month was driven by speculation of an impending pivot by the US Fed as economic data begins to weaken. During the month, the Reserve Bank of Australia surprised the market with a lower than expected 25bp increase in the cash rate target (to 2.60%). In dovish comments, the RBA noted that the cash rate had been increased substantially in a short period of time (50bp increases at each of the past four RBA meetings).

The best sectors for the month were Financials (+12.2%), REIT's (+9.9%) and Energy (+9.5%), while Consumer Staples (-0.2%), Materials (-0.1%) and Health Care (+0.6%) lagged.

Key contributors and detractors for the month:

Positive contributors	Basis points	Negative contributors	Basis points
AMP	+41	Short Book	-75
HUB24	+40	CBA	-42
ANZ	+28	BHP	-28
NAB	+28	South32	-19
Challenger	+25	Proteomics	-12

AMP rose 15% for the month, with the company providing an update on its 3Q22 assets under management and cashflows. Cashflows improved although AUM is being impacted by difficult markets. AMP Bank grew 1.4x system and the company suggested net interest margin would be within existing guidance.

HUB24 was up 21% for the month after reporting strong platform net inflows of \$3b for 1Q23, beating market expectations. The company ranked first amongst peers for quarterly net inflows.

ANZ (+12%) and NAB (+13%) both had strong months driven by rising net interest margins (NIMs) across the industry, with Bank of Queensland reporting an exit NIM of 1.81% for 4Q22 and ANZ reporting an exit NIM of 1.80% for 4Q22. These results suggest further margin upside from the RBA tightening cycle.

Challenger rose 20% for the month after announcing a strong start to FY23, with total life sales up 33% in 1Q23 driven by a 50% rise in retail annuities. Annuity sales are benefiting from rising interest rates with Challenger offering a 3-year annuity of 4.85% which is the highest level in the last decade.

The Short Book gave back some of last month's strong gains as the market rallied strongly. We reduced the size of the Short Book from 27.6% to 7.7% by the end of the month.

BHP's 3% fall for the month was driven by the sharp fall in the iron ore price (-16%) and a soft start to FY23, with most divisions (other than iron ore) reporting lower than expected production. The company has maintained FY23 production guidance. South32's quarterly production report was broadly in line with no change to production guidance.

Commodity prices were weaker with iron ore -16% to US\$82/t as China continued its strict COVID lockdown policies and copper -1% to US\$3.38/lb as the market's worries over the possibility of a global recession grew. Brent oil bounced back +8% to US\$95/bbl as OPEC cut supply. Gold fell for the seventh month in a row, down 2% to US\$1634/oz. The A\$/US\$ was flat at US\$0.64.

### Outlook & Positioning

We lifted our net exposure significantly during October to 69.9% by the end of the month (long 77.5%, short 7.7%) as the risk/reward equation improved.

Key changes included the addition of several oversold consumer discretionary stocks (JB Hi-Fi, Lovisa, Webjet) as well as financial stocks where we expect to see earnings tailwinds from rising interest rates (major banks, Challenger) and stocks where we believe the market is underestimating the potential for capital management (AMP).

Key themes within the portfolio include:

- Long Energy
- Long Banks
- Long Resources
- Short Expensive Growth

However, we believe we are in the midst of a bear market rally. As real rates rise, we are likely to see both earnings downgrades and PE multiple contraction amongst non-financial stocks. While the contraction in PE multiples is already well progressed, we are yet to see meaningful earnings downgrades across the broader Australian market. We expect the next move in our net exposure will be down, likely early in 2023.

## Fund performance<sup>4</sup>

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2022	-4.80%	-1.72%	1.17%	-1.93%	-2.43%	-0.55%	1.15%	0.05%	2.30%	1.47%			-5.36%
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

BT Asgard (Master Trust, Employee Super, Infinity eWrap)	Netwealth (Super Service, Wrap Service, IDPS)
BT (Panorama)	Oasis (Wealthtrac)
CFS (FirstChoice, FirstWrap, IX (PIS))	Powerwrap (Super, Pension, Smartwrap)
Hub 24 (Super, IDPS)	Wealthtrac
Macquarie Wrap (IDPS, Super)	Wealth O2
Mason Stevens	

## Get in touch



[kardiniacapital.com.au](http://kardiniacapital.com.au)



1800 895 388 (AU) or 0800 442 304 (NZ)



[client.experience@bennelongfunds.com](mailto:client.experience@bennelongfunds.com)

- 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](mailto:client.experience@bennelongfunds.com)) to request your performance history.

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