

Bennelong Kardinia Absolute Return Fund

Performance report | 28 February 2023

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	(3.91%)	(0.28%)	(2.83%)	0.39%	(0.18%)	7.40%
Benchmark ²	0.41%	2.43%	3.84%	2.73%	2.25%	3.32%

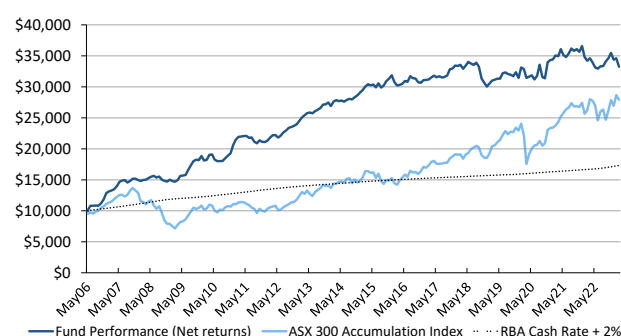
Performance figures are net of fees and expenses.

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
Inception date ³	1 May 2006
Unit price: daily series	0.9121
Unit price: monthly series	1.0710
Fund managers	Kristiaan Rehder, CFA® Stuart Larke, CFA®
Investment specialist	Mark Burgess, CFA®
Annualised return	7.40%
Total return since inception	232.52%
Annualised standard deviation	7.70%
Sharpe ratio (RFR=RBA cash)	0.53
Percentage of positive months since inception	65.84%

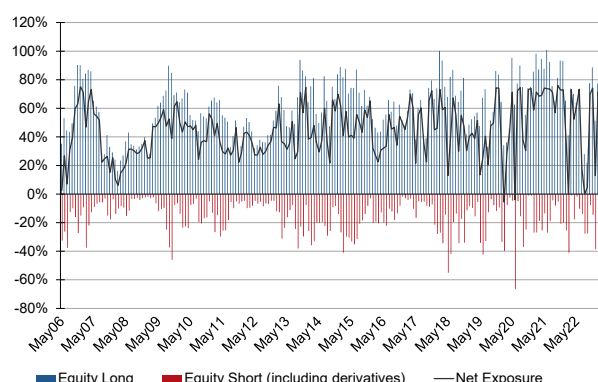
Historical performance²



Largest holdings

Holding	Sector	Weight
Commonwealth Bank	Financials	8.8%
Oz Minerals	Materials	6.4%
NAB	Financials	6.1%
Westpac	Financials	6.0%
Macquarie Group	Financials	3.7%
Aussie Broadband	Comm. Services	3.6%
Block	Info Tech	3.3%
Reliance Worldwide	Industrials	3.3%
Lynas	Materials	3.2%
Santos	Energy	3.1%

Portfolio exposure analysis



Market and fund commentary

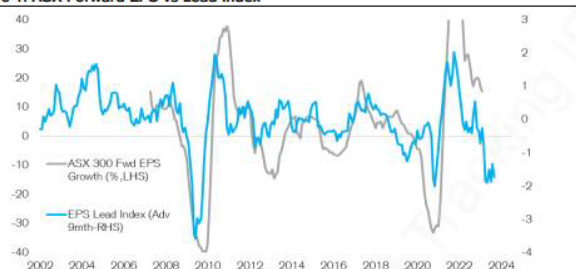
The Bennelong Kardinia Absolute Return Fund returned -3.91% in February, with the market also down (S&P/ASX300 Accum Index -2.55%) as signs of weakening earnings momentum came to the fore during the February profit reporting season. US and Asian markets were also weak (S&P500 -2.4%, MSCI Asia ex Japan -4.6%) although European markets posted positive returns (Euro Stoxx 50 +1.9%, FTSE 100 +1.8%).

The Reserve Bank of Australia increased the cash rate by 25bp to 3.35% while the US Fed raised the target range for the fed funds rate by 25bps to 4.5%-4.75%. Bond yields reversed last month's falls (US 10-year +43bp to 3.95%, Australian 10-year +30bp to 3.86%).

The key theme from the February profit reporting season was negative earnings revisions, with FY23 earnings growth cut by 0.7% to +6.6%. The cuts to earnings estimates were broad-based and outlook comments generally acknowledged that we are entering a tougher economic environment. The lack of earnings beats mirrored the experience from the US 4Q reporting season.

Credit Suisse strategists are suggesting that current financial conditions mean earnings estimates for the ASX300 have a further 15% to fall:

Figure 1: ASX Forward EPS vs Lead Index



Source: Refinitiv, Credit Suisse estimates

Other themes to emerge from reporting season were slowing consumption, higher inventories, continued tight labour supply and ongoing inflation.

The best sectors for the month were Utilities (+3.4%), Information Technology (+2.7%) and Industrials (+1.5%) while Materials (-6.6%), Financials (-3.1%) and Energy (down 0.8%) lagged.

Key contributors and detractors for the month:

Positive contributors	Basis points	Negative contributors	Basis points
QBE Insurance	+19	Short Book	-61
Aussie Broadband	+18	Northern Star	-55
Medibank	+11	City Chic	-54
Santos	+7	Westpac	-38
Reliance Worldwide	+7	NAB	-37

QBE Insurance's FY22 result beat consensus profit forecasts by 20%, driven by stronger investment income and better underwriting profits. The company appears to have made strong progress in delivering more consistent earnings, with a solid outlook for premium growth and the combined ratio. QBE trades at a CY23e PER of ~10x, with its PER relative to the market at around a 20% discount to its 5-year average despite improved earnings visibility.

Aussie Broadband delivered a strong 1H23 result with operating profit 4% above market. The company also upgraded EBITDA guidance as operating leverage in the business becomes evident. The key short-term issue for the company is the upcoming changes to NBN pricing tiers which we believe have the potential to provide cost savings and a margin boost to the company. Medibank rose 14% for the month after reporting a net margin ahead of consensus due to low claims. The impact of the cyber-attack in October 2022 also appears to have diminished, with policy number trends appearing to have bottomed out.

Northern Star released a slightly weaker first half result yet full year production and cost guidance remained unchanged. Off the back of a more hawkish Fed, the underlying gold price fell over 5% during the month. City Chic is a business in transition with the company actively rightsizing its inventory position and logistics infrastructure. City Chic is actively discounting stock in all markets to clear inventory ahead of key warehouse consolidation.

The banking sector was shaken by CBA's comments. Whilst CBA delivered a decent result in a worsening macro environment, Matt Comyn did highlight a number of competitors were writing mortgages below cost of capital and that net interest margins peaked in October. Loans in arrears are being watched very closely.

Commodity prices were weaker across the board, with iron ore -2% to US\$126/t, copper down 3% to US\$4.09/lb, Brent oil down 1% to US\$84/bbl and gold down 5% to US\$1826/oz. The A\$/US\$ fell 5% to US\$0.67.

Outlook & Positioning

We reduced our net exposure from 71.4% to 55.6% (long 80.8%, short 25.2%) with the key changes being the initiation of several new short positions arising from results during reporting season, offset by increased weightings in the major banks given an improved risk/reward equation.

Fund performance⁴

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2023	0.66%	-3.91%											-3.28%
2022	-4.80%	-1.72%	1.17%	-1.93%	-2.43%	-0.55%	1.15%	0.05%	2.30%	1.47%	+2.50%	-3.10%	-6.01%
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



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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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