

Key Points:

□ Kardinia Capital is a boutique Australian based Fund Manager established in August 2011 in conjunction with the Bennelong Group to continue the management of the Herschel Absolute Return Fund.

□ Long biased, research driven, active equity long/short strategy investing in listed ASX companies with a nine-year track record and an annualised return of 12.74% net of fees.

□ Portfolio Managers Mark Burgess and Kristiaan Rehder have over 46 years combined market experience, while Bennelong Funds Management provide the Fund's infrastructure, operational, compliance and distribution functions.

□ The Fund has significantly outperformed the ASX200 Accumulation Index since its inception in May 2006, and also has significantly lower risk KPI's as indicated in the Key Statistics table shown right.

Management Company Overview:

Kardinia Capital Pty Ltd ("Kardinia") was established by Mark Burgess and Kristiaan Rehder in August 2011 following their departure from Herschel Asset Management in late July 2011. Kardinia was established in conjunction with Bennelong Funds Management ("BFM") to manage the former Herschel Absolute Return Fund following the transfer of the management from Herschel. Under this arrangement the Fund was renamed the Bennelong Kardinia Absolute Return Fund, employing the same investment strategy, and retaining the Fund's five-year track record.

Bennelong Funds Management (BFM) is a division of the Bennelong Group, a privately owned organisation established in 2008 and which oversees a group of boutique fund managers across a range of funds.

Burgess and Rehder own a majority share of Kardinia, and led by Burgess are responsible for continuing the direction and implementation of the Fund's former investment strategy when it was under the Herschel banner. The balance of Kardinia is held by BFM who act as Trustee for the Fund, providing all administrative functions including accounting, compliance, risk management and licensing.

The Fund was originally launched in May 2006 as the Herschel Absolute Return Fund. Since inception it has been managed by Mark Burgess who commenced in the industry at ANZ McCaughan in 1987. This was followed by time with Ord Minnett & JP Morgan in New York and London. At Herschel Burgess had full responsibility for the Fund's investment

kardinia capital

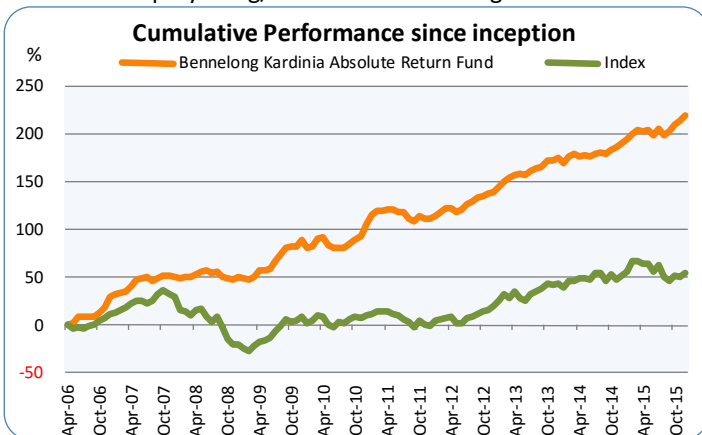
Key Performance Statistics	Kardinia	Index*
Dec-15	1.74	2.73
Annualised Return	12.74	4.61
Latest 3 Months	5.44	6.48
Latest 6 Months	6.52	-0.53
Latest 12 Months	9.61	2.56
Latest 24 Months p.a.	7.67	4.07
Latest 36 Months p.a.	9.99	9.17
Latest 60 Months p.a.	9.12	6.96
% Positive Months	73.91	59.13
Best Month	8.72	7.98
Worst Month	-4.38	-12.61
Largest Drawdown	-6.03	-47.19
Average +ve Return	1.87	3.26
Average -ve Return	-1.39	-3.64
Annualised Standard Deviation	7.26	14.29
Downside Deviation (Since Inception)	3.70	10.93
Sharpe Ratio (Since Inception)	1.12	0.08
Sortino Ratio	2.15	0.04

*Index is ASX200 Total Return adjusted since Fund's Inception

strategy and implementation, assisted by Rehder from 2006 following five years with Merrill Lynch in Australia, London and Singapore.

Investment Approach

The Bennelong Kardinia Absolute Return Fund is an Australian domiciled equity long/short fund investing in ASX securities



Performance - Net of Fees (%)														Bennelong Kardinia Absolute Return Fund
Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD	
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	9.61%	
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	14.78%	
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	2.40%	
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	9.35%	
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	25.46%	
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	0.31%	
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	16.34%	
2006	-	-	-	-	1.53	6.54	-0.06	0.32	-0.22	3.65	5.50	8.72	28.65%	

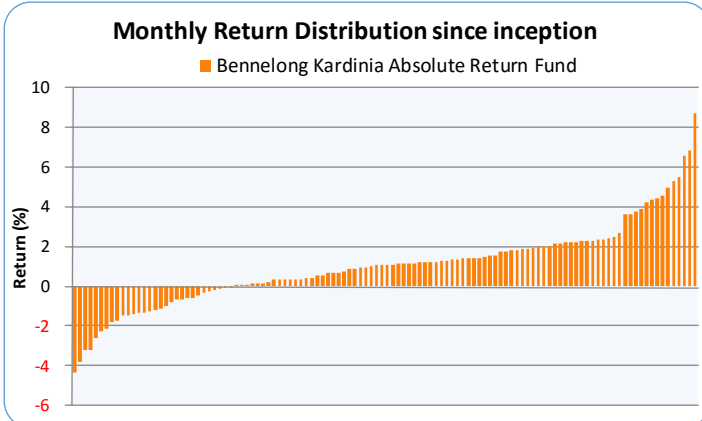
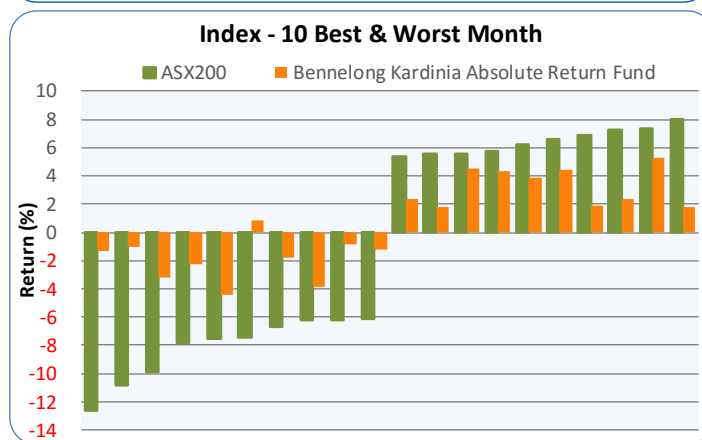
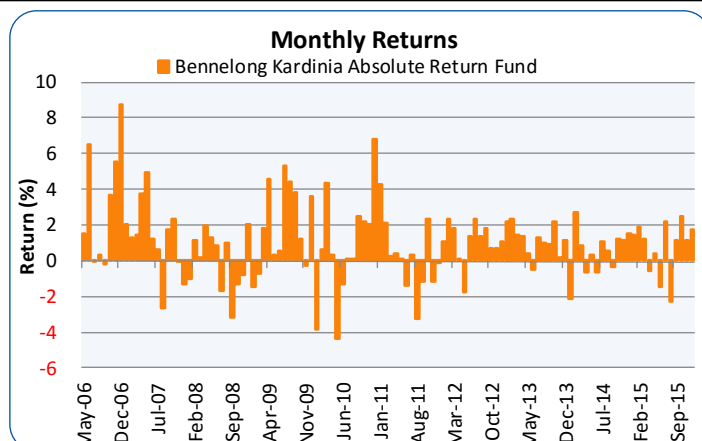
open to retail and wholesale investors. The Fund uses exchange traded call options and there is limited use of SPI futures contracts to hedge overall market risk.

The Fund consists of a concentrated long/short portfolio typically comprising 20 to 50 ASX300 listed stocks, generally with a long bias aligned to the overall market direction. On average since inception the Fund's exposure has averaged 40% net long.

There is a slight bias to large cap stocks on the long side of the portfolio, although in a rising market the portfolio will tend to hold smaller caps, including resource stocks, more frequently. On the short side, the portfolio is particularly concentrated, with stock selection limited by both liquidity and the difficulty of borrowing stock in smaller cap companies. Short positions are only taken when there is a high conviction view on the specific stock. The Fund uses derivatives in a limited way, mainly selling short dated covered call options to generate additional income. These typically have less than 30 days to expiry, and are usually 5% to 10% out of the money. ASX SPI futures and index put options can be used to hedge the portfolio's overall net position.

The discretionary investment process commences with a macro view of the economy's direction to establish the Fund's desired market exposure. Following this detailed sector and company research is gathered from knowledge of the individual stocks in the Fund's universe, with widespread use of broker research. Company visits, presentations and discussions with management at CEO and CFO level are used wherever possible to assess management quality across a range of criteria.

Detailed analysis of company valuations using financial statements and forecasts, particularly focusing on free cash



Performance Commentary

□ The Fund's historical performance statistics indicate that Burgess and Rehder's past management of the Fund provided investors with positive annualised returns and partial capital protection under a variety of investment conditions. This was achieved by outperforming, or performing in line with the ASX200 Accumulation Index during strong markets such as 2006 - 2007 and March to December 2009; avoiding losses during 2008 & 2011, and returning 9.33% during 2010 when the ASX was flat.

□ The Key Performance and Risk Statistics demonstrate the Fund's record in avoiding large drawdowns, with the worst month being -4.38% in May 2010 and a maximum drawdown of -6.03% as compared to -47.19% for the Index. This drawdown took 2 months to recover the previous "High Water Mark". The Fund has also recorded an asymmetrical return profile as indicated with over 74% of months positive.

□ Since inception, while not immune to losses when the market falls sharply, the Fund avoided the worst of these while achieving a high correlation to the ASX200's strongest months. The Fund has a standard deviation or volatility of 7.26% p.a., a Sharpe Ratio of 1.12 and an annualised performance since inception of 12.74% p.a., compared to the ASX200 Accumulation's data for the same measures of: volatility 14.29%; Sharpe Ratio 0.08 and an annualised return of 4.61% p.a.

flow, is conducted. Technical analysis is used to validate the Manager's fundamental research and valuations and to manage market timing.

The Manager believes that a significant portion of the Fund's long term performance can be attributed to the attention and importance given to the macro economic outlook, and the ability and willingness to adjust the Fund's market risk. For example, in 2007 leading into the 2008 GFC crisis, Burgess significantly reduced the Fund's long positions from over 80% to under 20%, and net exposure from 75% to under 10%, before increasing it in March 2009 as the market rallied sharply from its oversold position.

Risk Management

Typically, the portfolio may contain 20 to 50 positions at any one time, with an average of 35 and a holding period for each of

around six months. There is a high conviction when entering a position, with a minimum entry position of approximately 1% of the portfolio's NAV, and a maximum position size of 10%.

There are no set limits for sector exposure. The combined gross exposure of both long and short positions is limited to 150% of NAV, while net equity exposure (long – short positions) is unlikely to exceed 75% of NAV. The Fund does not use any borrowing to create leverage and has specific risk limits with a hard stop loss limit of 15% on each position. In practical terms this is rarely achieved as the portfolio management system flags positions on reaching a 10% drawdown, at which time the position is reassessed.

Stop loss limits are set at the position's inception, and re-set each month. There are no set liquidity limits for the Fund or underlying positions, and while FUM remains small Burgess does not believe this to be an issue.

Limits are monitored on a real time basis using IRESS and proprietary Excel spreadsheets, and reconciled daily with the Prime Broker and Administrator. BFM's back office and administrative team monitor risk limits and compliance, with breaches notified via email and reviewed by the Board's Audit Risk and Compliance Committee which meets quarterly.

Operational and Business Risk

The Fund has an ongoing outsourced arrangement to monitor compliance with Compliance and Risk Services Pty Ltd in addition to BFM's internal compliance manager. This involves overall compliance and risk for Kardinia Capital and the Fund.

Bennelong Funds Management has an active IT & Disaster Recovery system with daily offsite tape backup, and PC replication managed externally. This is being replicated for Kardinia.

Key person risk focuses on Mark Burgess and is typical for a boutique manager of Kardinia's size. Offsetting this is the close support of Portfolio Manager Kristiaan Rehder, the Fund's relatively small size, and the liquidity of the ASX listed positions. Investment decisions are broadly discussed between each Portfolio Manager, with Burgess having overall responsibility and the final decision when required. Investment Analyst Peter Lucas left Kardinia at the end of August 2014. The Manager is looking to add to the team in the short to medium term with a suitably qualified and experienced analyst.

Overall business and operational risk is managed by Bennelong's involvement both as a 35% shareholder and also as the AFS Licensee and Trustee for the Fund. Bennelong has significant operational structures, systems and processes in place across a range of fund offerings. In total there are 20 management, administrative and distribution staff employed by Bennelong Funds Management.

Investor Relations

The Fund issues a two-page Performance Report usually within the first 5 business days of each month which provides NAV's and net performance after all fees and charges, as verified by the Fund's external Administrator. The monthly report also shows historical performance and exposure analysis and a brief

commentary on both the market and the Fund's performance. It also identifies significant contributors and detractors to the Fund's overall performance for the month. Bennelong's track record in distribution and capital raising has significantly changed this situation, while the investment team of Burgess and Rehder have continued their long term management of the portfolio. The Manager believes that the Fund's capacity is around \$500 million and intends to soft close at that level.

Terms and Fees

Management fees are 1.5% of Net Asset Value (NAV) payable monthly. The manager also receives a Performance Fee of 20% of performance above the RBA Official Cash Rate subject to a High Water Mark, calculated monthly and payable half yearly. The Fund charges a buy/sell spread of 0.20% on entry and exit to cover brokerage costs. The Fund is also responsible for all reasonably and properly incurred expenses such as administration, accounting and transactional costs. Realised income is distributed semi-annually shortly after the end of June and December and may be re-invested or distributed at the investor's discretion.

Bennelong Kardinia Absolute Return Fund	
Strategy	Equity Long/short
Geographic Mandate	Australian
Domicile/Structure	Australian Unit Trust
Investor Type	Wholesale and Retail
Min. Investment	A\$20,000
Additional Investment	A\$10,000
Management Fee	1.50% p.a
Performance Fee	20% p.a, with high water mark
Hurdle	RBC Cash Rate
Min. Term	30 June, 31 December
Investment/Redemption	Daily with payment within 7 days
Inception Date	May-06
Fund Size	A\$270.4 million
Manager's Total FUM	A\$6.1 billion (Bennelong Group)
Status	Open

The minimum initial investment is \$20,000 with a minimum additional investment and withdrawal limit of \$10,000. There is no minimum term and there are no early termination fees. Investments and redemptions may be made daily with payment made within 14 days of receipt of the redemption request.

Burgess and Rehder are significant investors in the Fund on the same terms as external investors. Both increased their personal investment on transfer of the Fund to Bennelong Kardinia's management.

Structure and Compliance

The Bennelong Kardinia Absolute Return Fund is an Australian Unit Trust open to retail and wholesale investors under a PDS dated 2 September 2013. Kardinia Capital Pty Ltd is a Corporate Authorised Representative (Number 409528) of Bennelong Funds Management Limited, which in turn holds AFS Licence 296806. Bennelong maintains a detailed operations and compliance manual with any breaches notified via email at the

time, and subsequently reviewed at the quarterly meeting of the Board's Audit Risk and Compliance Committee.

The Manager states that there are no conflicts of interest. Personal trading by staff is permitted only if there is no current or anticipated activity in a stock by the Fund and only after written permission has been sought and received from Bennelong's CFO.

Service Providers

Custodian and Prime Broker:	UBS Australia
Administrator:	TMF Fund Administrators
Auditors:	Deloitte
Legal:	DLA Piper

This Report is valid till February 2016

About Australian Fund Monitors

Australian Fund Monitors (AFM) is a specialist research and information provider focusing on the Absolute Return and Hedge Fund Sector. Established in 2006, AFM holds AFS licence 324476 to provide general advice to wholesale investors only.

AFM Information and Research Services

AFM's Information Services provide comparative performance and factual fund data along with industry information available on www.fundmonitors.com and www.prismsselect.com.

AFM Research Services include AFM Fund Reviews which provide quantitative performance information along with descriptions of various aspects of each specific fund and the fund's manager. AFM Fund Reviews do not contain financial advice but are designed to provide self-directed investors and their advisers with an accurate, balanced and verifiable description of the fund's strategy and the manager's approach to enable the reader to make an informed decision on the suitability of the product for their particular purposes.

AFM FACTORS Research

AFM FACTORS Reports consist of in depth and detailed due diligence reports on specific funds and are designed for use by the research departments of dealer groups, financial advisers, and platforms. FACTORS research provide a quantitative approach to a range of operational and due diligence factors which combined with a detailed qualitative description provides the basis for inclusion of a particular fund on the approved product lists. AFM FACTORS reports are updated quarterly.

AFM Research Methodology

AFM's research product and methodology has specific benefits and features which differentiates AFM Fund Reviews from other research products.

AFM Fund Reviews do not provide ratings or recommendations:

We believe that blanket ratings and recommendations can be misleading, and are not able to take into account the financial circumstances or objectives of individual investors.

AFM Fund Reviews are clearly and concisely written:

This enables investors or their advisors to understand the objective and processes behind each fund's strategy, and structure and operations of the management company. When used in conjunction with the quantitative comparison of the fund's key performance and risk indicators (KPI's) included in each Fund Review, the reader is in a better position to make an informed decision regarding the suitability of the fund for individual investor's requirements.

AFM Fund Reviews are updated every month:

Out of date research is potentially inaccurate research. Not only can a fund's performance and risk profile change over the course of the year (typically the cycle for much of the managed fund research available) but so can operational details and investment personnel. Each AFM Fund Review contains an expiry date, and each fund manager is not permitted to distribute out of date reviews.

AFM specialises in the absolute return, hedge and actively managed fund sector:

We believe that this is a specialised area of the managed fund market, and as such requires a specific focus and expertise. The seniority and experience of AFM's research team and our focus explains why we label our product as: "**Trusted, Targeted Research**"

Disclaimer & Copyright

The information in this report, including financial returns, strategies, and other content (collectively referred to as "Content") has been prepared and issued by **Australian Fund Monitors Pty Limited** (A.C.N. 122 226 724, AFSL 324476) otherwise referred to as AFM. The information and content herein does not constitute financial advice and is for general information purposes only. Users of this report or any Content of AFM's websites (the "Websites") should not act or make any financial decision without first seeking professional advice. Whilst the Content has been prepared with all reasonable care from sources which we believe are reliable, no responsibility or liability is accepted by **AFM** for any errors or omissions or misstatements contained herein. Any opinions, forecasts or recommendations reflect information and assumptions at the date of publication and may change without notice. In preparing the Content it is not possible to take into consideration the investment objectives, financial situation or particular needs of any individual user.

Disclosure of Interest

AFM has or may have, received fees either directly from a company itself or by a third party to provide consultancy services or corporate research. AFM has or may have interests in, or received fees either directly from a company itself or by a third party to provide consultancy services or corporate research. Australian Fund Monitors Pty Limited, its directors, employees or related parties (collectively "AFM") may have investments in, or commercial relationships with, companies or entities which are mentioned in this Report, and which might give rise to a potential conflict of interest.

Copyright Protection

All Content herein is owned by **Australian Fund Monitors Pty Limited** (A.C.N. 122 226 724) and is protected by copyright. You must not copy, frame, modify, transmit or distribute the content in full or in part, without seeking the prior written consent of the copyright owner. Users are prohibited from copying, distributing, transmitting, displaying, publishing, selling, licensing, creating derivative works or using any content on the web site for commercial or public purposes

Copyright © 2016 by **Australian Fund Monitors Pty Limited** All rights reserved.

No Warranties

AFM does not make any claims, promises, guarantees, representations or warranties regarding the accuracy, completeness or fitness for purpose of the Content. All information and content in this report is provided on an as is basis, without warranty of any kind either express or implied. It is the responsibility of the user to evaluate the accuracy, completeness or usefulness of any information, opinion, general advice or other. Furthermore, AFM does not warrant or represent that this content is error free.