

K2 Australian Fund

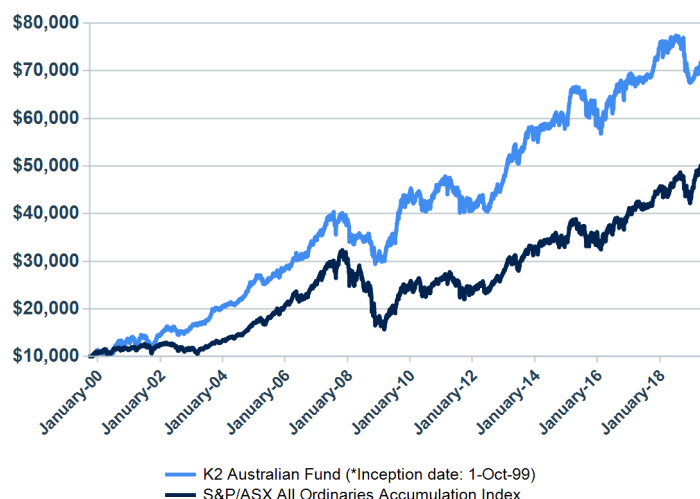
30 April 2019



The K2 Australian Fund is an Absolute Return equities fund. The fund is index-unaware, aiming to produce positive absolute returns over the long term with a capital preservation mindset. The Funds' mandate allows it to actively manage its net market exposure – utilising both cash and shorts to help protect clients' capital.

	1 Month	3 Months	1 Year	3 Years (%pa)	5 Years (%pa)	10 Years (%pa)	15 Years (%pa)	Inception (%pa)	Inception Date
Performance (Net of Fees)	1.4%	4.0%	-5.6%	4.1%	3.9%	7.7%	8.5%	10.5%	1-Oct-1999
Average Net Exposure	64.0%	56.6%	63.5%	74.9%	76.8%	81.9%	75.4%	72.0%	

Growth of \$10,000



Commentary

The K2 Australian Fund returned 1.4% for the month of April.

Australia's CPI for the fourth quarter of 2018 was released and was below expectations. In response, market participants rapidly priced in a rate cut for 2019. In addition, GDP growth expectations for the Australian economy have tapered by nearly 0.5% already this year, as consumer activity continues to stagnate. Despite the moderating economic conditions, sell-side analysts have resisted cutting their EPS forecasts for the Australian equity market. As a result, lower interest rate expectations helped drive the ASX All Ordinaries Accumulation Index 2.5% higher for the month.

The Fund's holdings in Seven Group, Webjet and Medical Developments all rose more than 10% for the month. Seven Group and Webjet reiterated that current trading conditions were aiding future profitability. Medical Developments continues to find support for its expansive vision for growth. The Fund's bank positions in Westpac, ANZ and Macquarie also responded favourably to further declines in the cost of funding. Flight Centre Travel fell 8% during the month and was the Fund's largest detractor to performance as the company reduced profit guidance by 12%.

The Fund's net exposure for the month averaged 64%. The Fund's median holding trades at a 20% PE discount to the ASX 200 yet delivers an ROE that is 18% stronger. We are patiently waiting for attractively priced investment opportunities that will further enhance the quality of the portfolio. We are mindful that lower inflation expectations have prompted some investors to ratchet discount rates lower. We are hesitant to follow suit, as we sense that the "search for yield" mistakes of 2007 are being repeated in 2019. This time, however, the "search for yield" is being replaced with the "search for growth". We believe that the relationship between a government long bond yield and an equity market discount rate is more than just beta. There is a point where common sense must prevail; growth at any price is simply speculation.

Top 5 Stock Holdings	Current	Monthly Move
Westpac Banking Corp	4.9%	+1.0%
Macquarie Group Ltd	4.0%	+0.7%
ANZ Banking Group	4.0%	+1.1%
BHP Group Ltd	3.8%	+0.6%
RIO Tinto Ltd	3.7%	+0.4%

Month End Exposures	Current	Monthly Move
Communication Services	4.5%	+0.8%
Consumer	10.4%	-0.1%
Energy	2.6%	+0.9%
Financials	23.2%	+4.8%
Health Care	5.0%	-0.6%
Industrials	6.1%	+1.1%
Information Technology	0.1%	-1.3%
Materials	13.9%	+1.6%
Real Estate	2.2%	-0.1%
SHORTS	-0.8%	-0.1%
Number of Positions	47	+2
Gross Equity Exposure	68.8%	+7.3%
Cash Weighting	32.8%	-7.0%
Net Equity Exposure	67.2%	+7.0%

Fund Characteristics

FUM	AUD \$185m
Portfolio Managers	Campbell Neal, David Poppenbeek, Josh Kitchen and Nicholas Leitl
Strategy	Australian and New Zealand Equities
Objectives	To deliver consistent absolute returns over the investment cycle with a focus on capital protection during periods of market declines
Return Target	+10% pa over the long term
Number of Stocks	Up to 80
Cash	Up to 100% of portfolio
Distributions	Annually
Management Fee	1.31%
Buy/Sell	Daily Application/Redemption
Performance Fee	15.38% pa of the amount by which the NAV per unit exceeds the High Water Mark once the fund achieves its hurdle

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K2 Australian Fund Net Monthly Returns in AUD

Year	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Fin YTD	Fin YTD Index (1)	Average Cash	Average Short	
1999/00				1.9	2.0	9.5	-3.9	-2.6	5.6	-4.0	-1.9	2.4	8.5	16.0	52.0%	-12.8%	
2000/01	13.1	6.8	-3.1	0.1	4.5	0.9	4.5	-2.9	-11.9	13.0	5.2	0.5	32.2	8.8	27.7%	-16.7%	
2001/02	-7.9	-4.8	-5.4	8.7	11.5	1.8	3.9	3.5	-0.2	-0.4	2.7	-2.7	9.5	-4.5	32.1%	-14.6%	
2002/03	-6.3	3.6	-0.9	1.7	1.6	4.3	1.8	1.2	-0.2	2.2	0.7	1.5	11.2	-1.1	51.6%	-14.4%	
2003/04	3.7	7.0	1.6	2.5	-1.2	2.9	0.4	1.4	0.5	-0.1	0.3	2.2	23.2	22.4	36.0%	-3.7%	
2004/05	3.1	1.4	4.2	4.5	3.7	1.4	3.8	0.3	-2.0	-3.4	0.8	3.2	22.6	24.7	26.9%	-5.2%	
2005/06	1.3	0.7	3.9	-3.2	3.7	1.4	1.7	0.5	3.5	1.9	-0.4	2.0	18.3	24.2	27.6%	-3.9%	
2006/07	-0.9	2.3	1.5	5.8	0.4	3.0	1.0	0.5	3.0	2.7	3.5	0.2	25.3	30.3	32.2%	-4.9%	
2007/08	-0.6	-1.5	2.6	0.9	-1.9	-0.3	-9.3	-0.4	-1.5	1.6	0.9	-2.3	-11.6	-12.1	51.1%	-8.2%	
2008/09	0.3	2.8	-5.8	-5.6	-3.8	3.4	-1.6	-1.2	5.7	4.7	0.9	2.9	1.9	-22.1	46.6%	-3.4%	
2009/10	7.2	7.4	5.1	-1.0	1.8	3.5	-4.0	-0.2	3.5	-0.6	-5.7	-0.9	16.3	13.8	10.3%	-2.6%	
2010/11	2.1	-1.1	4.7	3.3	0.1	3.4	-0.5	1.9	0.0	-1.6	-1.7	-0.8	10.0	12.2	14.1%	-4.0%	
2011/12	-3.4	-0.6	-4.8	3.7	-2.8	-2.1	3.1	1.9	1.9	-0.2	-5.5	-0.4	-9.2	-7.0	23.3%	-3.5%	
2012/13	3.3	2.9	1.2	3.6	0.1	3.1	4.5	4.5	0.3	4.5	-2.8	-1.4	26.1	20.7	7.2%	-0.2%	
2013/14	3.3	1.3	4.6	2.5	-0.3	0.1	-2.3	2.2	1.7	-0.1	0.0	-0.9	12.5	17.6	11.7%	0.0%	
2014/15	2.8	1.6	-2.0	2.0	-0.8	-0.7	3.5	6.2	0.4	-0.3	1.2	-3.0	11.0	5.7	18.5%	-0.3%	
2015/16	1.6	-4.1	-2.7	3.4	-0.6	-1.7	-3.8	-1.4	4.4	3.1	2.2	-3.1	-3.2	2.0	19.8%	-0.3%	
2016/17	5.1	1.3	1.3	-1.4	0.0	2.9	0.2	-1.6	1.0	-0.1	0.1	0.0	9.0	13.1	16.7%	-1.5%	
2017/18	1.0	0.3	0.5	2.9	1.8	3.2	0.8	0.7	-2.7	1.7	0.7	1.6	13.1	13.7	21.6%	-3.7%	
2018/19	0.4	-1.4	0.1	-7.2	-2.4	-1.2	0.1	2.4	0.2	1.4			-7.7	5.6	40.7%	-3.6%	
													Incept	610.6	397.0		
													Incept	10.5%pa	8.5%pa	28.4%	-5.4%

(1) S&P/ASX All Ordinaries Accumulation Index

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