

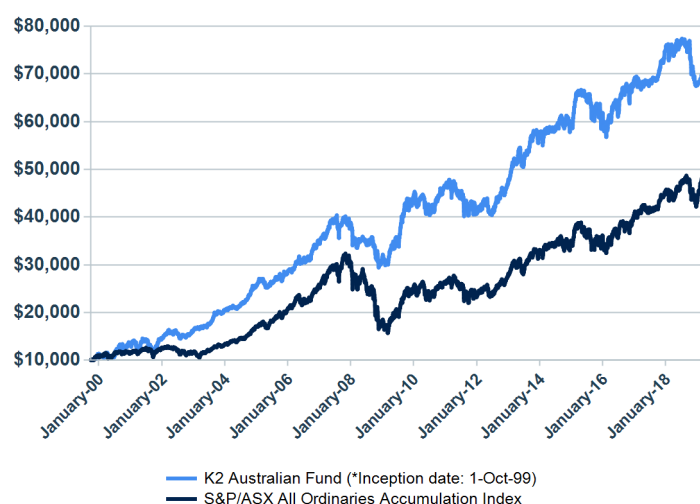
# K2 Australian Fund

## 28 February 2019



	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)	2.4%	1.3%	-8.0%	6.1%	3.9%	8.6%	8.4%	10.5%	1-Oct-1999
Average Net Exposure	47.5%	33.3%	67.4%	75.7%	77.4%	81.9%	75.4%	72.1%	

### Growth of \$10,000



Top 5 Stock Holdings	Current	Monthly Move
Westpac Banking Corp	3.8%	+3.3%
Macquarie Group Ltd	3.2%	+2.2%
Cedar Woods Properties Ltd	3.2%	+0.3%
RIO Tinto Ltd	3.1%	+0.9%
Metlifecare Ltd	2.8%	+0.0%

Month End Exposures	Current	Monthly Move
Communication Services	3.5%	+1.6%
Consumer	10.2%	+4.3%
Energy	1.5%	-0.5%
Financials	16.6%	+7.0%
Health Care	5.0%	+0.1%
Industrials	4.1%	+2.2%
Information Technology	1.2%	-0.2%
Materials	10.8%	+2.1%
Real Estate	4.1%	+1.2%
SHORTS	-2.1%	+0.4%
Number of Positions	45	+3
Gross Equity Exposure	59.2%	+17.5%
Cash Weighting	44.9%	-18.3%
Net Equity Exposure	55.1%	+18.3%

### Commentary

The K2 Australian Absolute Return Fund returned 2.4% for the month of February.

The Fund held average net exposure for the month of 48% and was positioned for a continuation of macro headwinds eroding corporate profitability. We expected the growing trend in EPS downgrades to cause a market PE de-rate, however, lower long bond yields resulted in higher valuation metrics and the All Ordinaries Accumulation Index subsequently rose 6.1%. We remain defensively positioned and continue to avoid high PE, high momentum stocks, preferring to focus on companies trading at attractive valuations with strong balance sheets and compelling opportunities to grow. Net exposure finished the month at 55%.

The Royal Commission into Financial Services released its final report during the month and the recommendations were more balanced than expected, driving financial stocks higher. The Fund's exposure to the major banks doubled during the month but is still below 10%. This increase reflects our expectation that Australian banks will re-engage with potential borrowers. The Fund will likely retain an underweight position in the bank sector as we are observing a continued rate of decay in employment lead indicators and believe that bad debt charges will cycle higher over the next few years.

Global equity markets responded well to more constructive rhetoric surrounding US and China trade negotiations. In addition, the US Federal Reserve intimated that higher interest rates were not a foregone conclusion. Seven Group Holdings and Nine Entertainment Group were the best positive contributors for the month. Both companies, despite adverse trading conditions, delivered better interim profits than generally expected. The Fund's positions in Citadel Group and Pioneer Credit were negative contributors. Both companies delivered weaker than expected results and were marked down 20% during the month.

### Fund Characteristics

FUM	AUD \$196m
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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