

# K2 Australian Fund

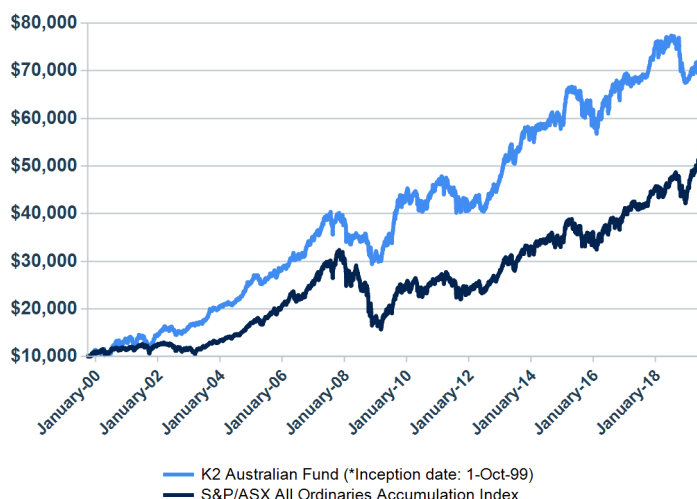
## 31 May 2019



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)	0.3%	1.9%	-5.9%	3.4%	4.0%	7.6%	8.5%	10.5%	1-Oct-1999
Average Net Exposure	69.2%	63.6%	62.1%	74.7%	76.9%	81.9%	75.5%	72.0%	

### Growth of \$10,000



### Commentary

The K2 Australian Fund returned 0.3% for the month of May.

The Australian Federal Election was held during the month and the Coalition Government was re-elected. The result was in contrast to polling and betting odds that indicated that the ALP would easily win the election, and market participants had subsequently tilted exposure away from companies exposed to ALP policies. Following the election, Australian banks were keenly sought as were health insurers and property developers. The ASX All Ordinaries Accumulation Index rose 1.7% for the month and outperformed most globally developed equity markets.

The Fund's holdings in Nine Entertainment, JB Hi-Fi and Flight Centre all rose more than 10% for the month, as investors pursued companies with leverage to an expected elevation in consumer activity. Aristocrat Leisure was also one of the Fund's best performers, following the release of its first half profit that was ahead of market expectations. Macquarie Group fell 10% during the month and was the largest detractor to performance. Macquarie's incoming CEO indicated that group profits were expected to be slightly lower in 2020. We are confident that Macquarie will continue to deliver meaningful profit growth in the years ahead and believe that market conditions will inevitably be a tail wind again.

The Fund's net exposure for the month averaged 69%. We are wary of the contraction in the Australian 10-year bond yield, which closed the month at a meagre 1.46%; some investors continue to ratchet discount rates lower without making the corresponding adjustment to long run growth rates. If discount rates continue to contract and long term growth rates expand, valuation metrics are vulnerable to mathematical absurdities. One in eight ASX 200 companies already trade on more than 30x next year's expected EPS.

Top 5 Stock Holdings	Current	Monthly Move
Westpac Banking Corp	6.1%	+1.2%
Macquarie Group Ltd	6.1%	+2.1%
BHP Group Ltd	4.9%	+1.1%
Nine Entertainment Co Holdin	4.8%	+1.8%
RIO Tinto Ltd	4.8%	+1.1%

Month End Exposures	Current	Monthly Move
Communication Services	8.8%	+4.3%
Consumer	13.7%	+3.2%
Energy	2.1%	-0.5%
Financials	25.2%	+2.0%
Health Care	5.3%	+0.3%
Industrials	3.7%	-2.4%
Materials	15.2%	+1.3%
Real Estate	1.5%	-0.7%
SHORTS	-1.3%	-0.5%
Number of Positions	42	-5
Gross Equity Exposure	76.7%	+7.9%
Cash Weighting	25.9%	-6.9%
Net Equity Exposure	74.1%	+6.9%

### Fund Characteristics

FUM	AUD \$144m
Portfolio Managers	Campbell Neal, David Poppenbeek, Josh Kitchen and Nicholas Leidl
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	0.3		-7.4	7.4	39.8%	-3.4%	
													Incept	613.0	405.3		
													Incept	10.5%pa	8.6%pa	28.3%	-5.4%

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

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