

K2 Australian Fund

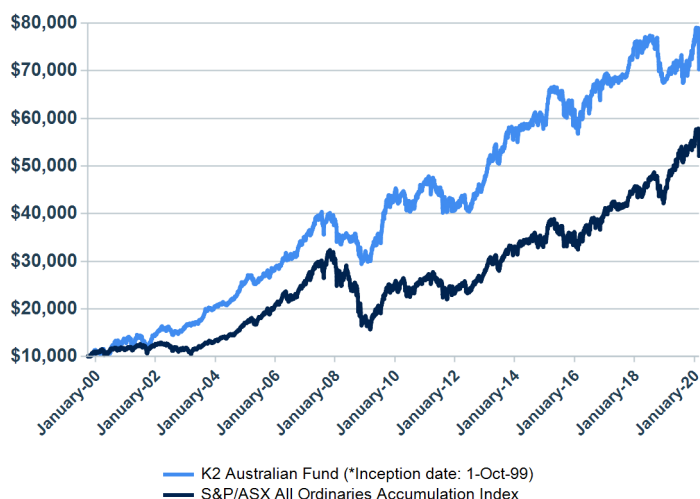
29 February 2020



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 Fund's 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)	-9.4%	-4.9%	0.5%	1.4%	1.4%	5.1%	6.6%	10.0%	1-Oct-1999
Average Net Exposure	88.3%	88.7%	77.6%	72.1%	76.5%	81.3%	75.6%	72.4%	

Growth of \$10,000



Commentary

The K2 Australian Fund returned -9.4% for February.

Over the past 3 months the outlook for the Australian economy has soured; GDP growth expectations have declined by more than 0.5% and it is likely that this trend will continue. Despite the recent 0.25% cut in interest rates by the Reserve Bank of Australia (RBA), market participants will remain sceptical about Australia's economic fortunes. It seems clear that some fiscal leadership is necessary; the government needs to embark on some long-range actions that will promote activity and confidence. Globally the outbreak of the coronavirus is causing a significant rise in market volatility. During the last 6 trading days of February the S&P500 shed 12%, the VIX rose to the highest level since the GFC and the oil price (WTI) declined 17%. Interestingly, during that same week, the rate of change in global coronavirus cases faded. We do not have any edge in understanding the evolution in the virus however we do have experience in managing through difficult climates. To us, equity share prices look attractive relative to future prospects and relative to competing asset classes.

The best performing holding for the Fund was Money3 Corp (MNY) which rose 14% for the month following a strong 1H'20 profit. MNY grew its profits by more than 60% in the first half of the year and further growth is expected in the future. The Fund also experienced positive contributions from short positions in IOOF Holdings (IHL) and Afterpay (APT). Both positions fell by more than 10% during the month and were subsequently closed out. The worst performing holdings for the Fund were BHP Group (BHP), Rio Tinto (RIO) and Seven Group Holdings which all declined by more than 10%. The underperformance was driven by the expectation that global activity will retreat dramatically over the coming months.

The Fund's net exposure for the month averaged 88.2%; long and short exposure averaged 90.6% and 2.4% respectively. The ASX200 lost 1.4 PER points during the month and is now trading on 16.8x next year's profit.

Top 5 Stock Holdings	Current	Monthly Move
Macquarie Group Ltd	10.1%	+0.6%
BHP Group Ltd	6.7%	-0.2%
RIO Tinto Ltd	6.3%	+0.1%
Seven Group Holdings Ltd	5.5%	0.0%
Summerset Group Holdings Ltd	5.0%	0.0%

Month End Exposures	Current	Monthly Move
Communication Services	1.0%	0.0%
Consumer	14.6%	+1.7%
Energy	1.6%	-0.8%
Financials	37.9%	+2.8%
Health Care	8.6%	-4.4%
Industrials	11.5%	-1.6%
Materials	15.0%	+0.1%
Real Estate	1.5%	+1.5%
SHORTS	-2.1%	+2.6%
Number of Positions	38	-2
Gross Equity Exposure	93.8%	-3.3%
Cash Weighting	10.4%	-1.9%
Net Equity Exposure	89.6%	+1.9%

Fund Characteristics

FUM	AUD \$28m
Portfolio Managers	Campbell Neal, David Poppenbeek and Josh Kitchen
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	-0.3	-7.6	11.0	39.3%	-3.3%	
2019/20	2.2	-4.6	3.6	-1.0	4.0	2.1	2.7	-9.4					-1.1	-0.3	15.8%	-1.9%	
													Incept	602.9	421.0		
													Incept	10.0%pa	8.4%pa	27.7%	-5.2%

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

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