

# K2 Australian Fund

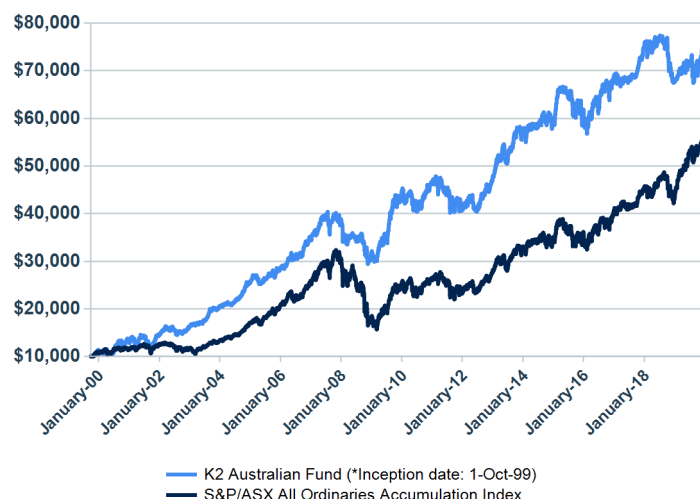
## 30 November 2019



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 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)	4.0%	6.6%	7.0%	3.6%	4.2%	5.6%	7.4%	10.4%	1-Oct-1999
Average Net Exposure	84.5%	85.2%	63.9%	72.5%	76.5%	81.4%	75.5%	72.2%	

### Growth of \$10,000



### Commentary

The K2 Australian Fund returned 4.0% for November.

The Fund's holdings in New Zealand aged care operators Summerset (SUM) and Metlifecare (MET) performed well for the month rising 17% and 21% respectively. We have been long term believers in the New Zealand aged care model of continuum care. As "baby boomers" progressively age over the next 20 years we believe that quality aged care operators will prosper. Importantly, during the month MET received an expression of interest from a credible third party to acquire the company. The current price of MET is still 19% below book value and the proposed bid price is below the board's valuation. A premium for control should ensure that there is still further upside in holding MET.

The Fund's aggregate bank holdings were the largest detractor to performance. For the past few months, the Fund has been significantly underweight the major banks, so although the bank sector declined 3% in November, the Fund's major bank exposure lost just 25bps. The sector weakness was caused by Westpac (WBC) raising \$2b via an institutional placement. Two weeks later AUSTRAC launched civil proceedings against WBC in relation to alleged contraventions of the Anti-Money Laundering and Counter-Terrorism Financing Act. Then within a week WBC's CEO resigned and the Chairman announced that he would bring forward his retirement. Since the GFC, Australia's major banks have experienced extraordinarily favourable regulatory treatment. Unfortunately, this position has not added value to the broader Australian community. We believe that the banking playing field needs to be levelled and organisations like Bendigo Bank are well placed to benefit.

The Fund's net exposure for the month averaged 84.5%; long and short exposure averaged 86.3% and 1.8% respectively. We continue to find attractively priced investment opportunities.

Top 5 Stock Holdings	Current	Monthly Move
Macquarie Group Ltd	8.8%	-2.5%
BHP Group Ltd	7.5%	+1.1%
RIO Tinto Ltd	6.5%	+0.9%
Seven Group Holdings Ltd	5.0%	-1.5%
Summerset Group Holdings Ltd	4.7%	+1.2%

Month End Exposures	Current	Monthly Move
Communication Services	1.3%	+0.0%
Consumer	14.7%	+1.5%
Energy	2.0%	+1.0%
Financials	32.7%	-0.1%
Health Care	11.5%	+2.0%
Industrials	11.5%	+0.3%
Materials	16.1%	+1.5%
SHORTS	-2.6%	-1.6%
Number of Positions	38	+2
Gross Equity Exposure	92.5%	+7.8%
Cash Weighting	12.7%	-4.6%
Net Equity Exposure	87.3%	+4.6%

### Fund Characteristics

FUM	AUD \$37m
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								4.0	5.6	18.5%	-1.6%	
													Incept	639.1	451.9		
													Incept	10.4%pa	8.8%pa	27.8%	-5.2%

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

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