

# K2 Australian Fund

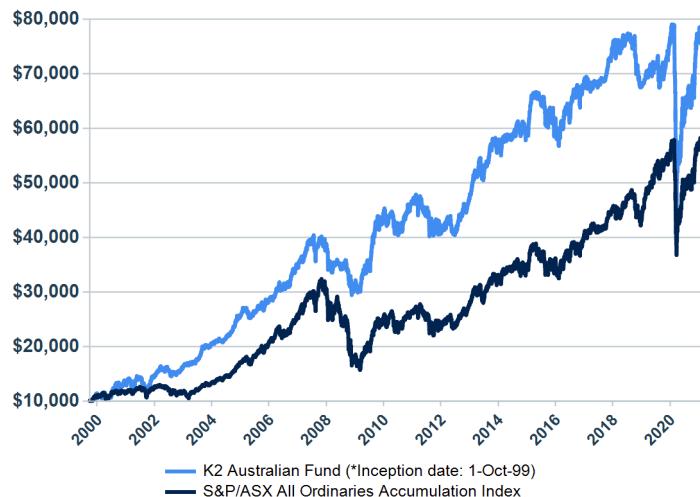
## 31 January 2021



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	Inception (%pa)	Inception Date
Performance (Net of Fees)	-1.0%	9.9%	1-Oct-1999
Average Net Exposure	97.5%	73.4%	

### Growth of \$10,000



Top 5 Stock Holdings	Current	Monthly Move
BHP Group Ltd	8.9%	+0.8%
Macquarie Group Ltd	8.6%	+0.7%
RIO Tinto Ltd	7.3%	+0.3%
Seven Group Holdings Ltd	7.1%	-0.2%
Medibank Private Ltd	6.0%	+0.6%

Month End Exposures	Current	Monthly Move
Consumer	6.7%	-2.5%
Financials	44.9%	+3.5%
Health Care	8.2%	+0.3%
Industrials	9.4%	-3.3%
Materials	25.9%	+2.6%
Real Estate	2.1%	-1.2%
Number of Positions	32	-2
Gross Equity Exposure	97.2%	-0.7%
Cash Weighting	2.8%	+0.7%
Net Equity Exposure	97.2%	-0.7%

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### Commentary

The K2 Australian Fund returned -1.0% for the month and is +21.6% this financial year to be +5.5% ahead of the benchmark (BM). Since the lows of the March correction the fund is up +68.5% outperforming the BM by +15.5%. The combination of good stock selection and investing cash early in the recovery have contributed to the strong performance vs benchmark since the severe March correction. Importantly, the fund has delivered a consistent 10% p.a. return over 21 years without excess market volatility.

Equity markets around the world endured a bout of selling pressure during the last few days of the month. Some selective over-crowded short positions were squeezed during the month and this led to concerns over the collateral positions for a few over-gearred hedge funds. In addition, the interbank repo rate in China rose nearly 3% and this helped contribute to the subsequent spike in the VIX late in the month as market participants reigned in risk positions. The US reporting season should continue to provide a positive undertow over the coming few weeks and the Australian profit season will most likely deliver to the upside. That said, we have been surprised by the lack of confidence in the virtues of the Australian economy. Over the year ahead the consensus forecast for GDP growth from the Australian economy is meaningfully lower than developed peers like Canada, the UK, and New Zealand. This seems at odds to the recent strength in commodity prices, the improved state of the Australian housing market and the success of the Job-keeper package. We believe that the Australian economy is well positioned to outperform peer nations this year as should profits from ASX listed companies. The Reserve Bank of Australia (RBA) is effectively underwriting this backdrop with a strong commitment to hold interest rates at minimal levels for the foreseeable future.

The best performing holdings for the Fund this month were Kina Securities (KSL), Healthia (HLA) and Westpac Bank (WBC) which rose 13%, 31% and 9% respectively. KSL is PNG's leading financial services company. During the month KSL agreed to acquire Westpac's Pacific operations. Despite the highly accretive acquisition KSL continues to trade on just 6x next years' expected profit. HLA is a small cap holding that provides podiatry and physiotherapy services and is attractively priced at 11x. WBC has been plagued with a series of operational missteps and has subsequently become the cheapest of the major banks. WBC's PE discount to the Banking sector hit a 15 year low last month and the stock price finally found some support.

The Fund's net exposure for the month averaged 97.5%. The median holding for the Fund has attractive characteristics; using consensus forecasts for the year ahead the PE is 15.3x, ROE is 10.6%, and the dividend yield is 3.7%. The market capitalisation of the median holding for the Fund is \$7.5 billion and EPS growth is expected to be +13.1% over the next 12 months.

### Fund Characteristics

FUM	AUD \$21m
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

## 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	-26.2	10.8	5.7	2.2	-12.7	-7.2	13.6%	-1.6%
2020/21	3.1	5.1	-3.9	1.7	13.3	2.4	-1.0						21.6	16.0	2.8%	-0.1%
Incept													654.7	462.8		
Incept													9.9%pa	8.4%pa	26.5%	-5.0%

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

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