

K2 Australian Fund

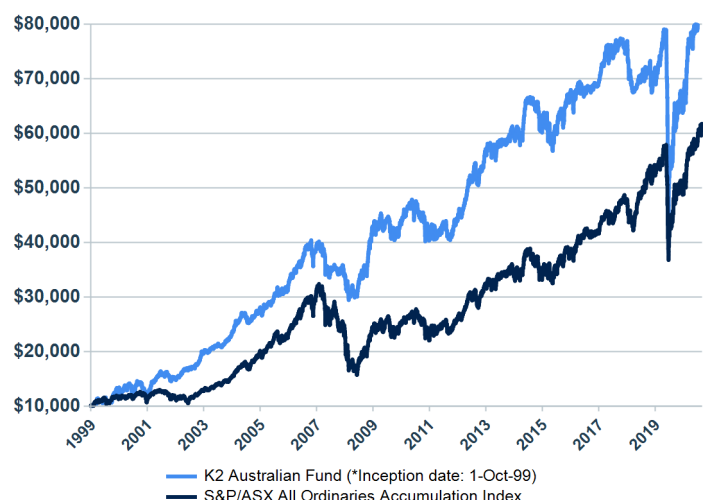
31 May 2021



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	3 Months	6 Months	1 Year	5 Years (%pa)	10 Years (%pa)	15 Years (%pa)	Inception (%pa)
Performance (Net of Fees)	1.05%	6.53%	12.21%	37.61%	5.34%	6.28%	6.93%	10.30%

Growth of \$10,000



Commentary

The K2 Australian Fund returned +1.05% for the month and has now returned +37.61% over the past year this financial year to be +7.7% ahead of the benchmark (BM).

Despite the occasional COVID flare-up, Australian households are generally in good shape. Consumer sentiment is at a two decade high, house prices are five times household disposable income and the household savings ratio has almost halved during the past three quarters. Household net worth is subsequently rising steadily. Business confidence is also strong; capacity utilisation is at a thirty year high and borrowing rates have never been lower. Despite this, business loan growth over the past year is negative and business investment as a share of nominal GDP is today as low as it was back in the recession of the early 1990's. Given that Australian corporates are running extraordinarily conservative balance sheets and fiscal stimulus measures are plentiful, we have been surprised that corporate animal spirits are still sombre. We can only hope that Australian business leaders will eventually recognise that the pursuit of growth will be applauded. We believe that over the next decade a number of industries will experience a rotation in sizable chunks of market share. Progressive businesses that have invested heavily during the pandemic will ultimately prevail. Two such holdings for the Fund are Macquarie Group and Ryman Healthcare.

Top 5 Stock Holdings	Current	Monthly Move
Macquarie Group Ltd	8.7%	-0.4%
BHP Group Ltd	8.6%	+0.1%
Medibank Private Ltd	7.5%	+0.2%
RIO Tinto Ltd	7.0%	+0.2%
Seven Group Holdings Ltd	6.6%	-0.3%

The best performing holdings for the Fund this month were Maas Group (MGH), Pental Group (PDL) and Commonwealth Bank (CBA) which rose 15%, 6% and 10% respectively. MGH listed late last year and is a construction materials, equipment, and services provider with diversified exposures across the civil, infrastructure, mining, and property markets. During the month, the Australian Budget outlined an additional \$15.2 billion over ten years to fund infrastructure commitments. MGH is extremely well positioned to benefit from this. PDL announced the highly accretive acquisition of US based fund manager TSW for \$413 million. The acquisition will increase FUM to over \$130 billion and should add more than 10% to next years' EPS. During the month CBA announced that its 3Q profit was 24% high than the average of the first 2 quarters of the year. Loan growth is strong and bad debt provisions are declining.

Month End Exposures	Current	Monthly Move
Consumer	8.9%	+0.6%
Financials	44.5%	+1.6%
Health Care	7.7%	-1.2%
Industrials/Real Estate	15.0%	-0.1%
Materials	22.6%	+0.5%
SHORTS	-1.0%	-1.0%
Number of Positions	32	0
Gross Equity Exposure	99.6%	+2.4%
Cash Weighting	2.4%	-0.3%
Net Equity Exposure	97.6%	+0.3%

The Fund's net exposure for the month averaged 97.2%. The median holding for the Fund has attractive characteristics; using consensus forecasts for the year ahead the PE is 15.6x, ROE is 12.7%, and the dividend yield is 3.1%. The market capitalisation of the median holding for the Fund is \$8.5 billion and EPS growth is expected to be +10.8% over the next 12 months.

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Fund Characteristics

FUM	AUD \$19m
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				1.90	2.00	9.51	-3.92	-2.58	5.57	-3.95	-1.93	2.44	8.53	15.98	51.97%	-12.83%
2000/01	13.14	6.79	-3.07	0.14	4.50	0.91	4.53	-2.88	-11.90	13.03	5.25	0.47	32.19	8.85	27.72%	-16.68%
2001/02	-7.85	-4.82	-5.35	8.66	11.51	1.84	3.93	3.54	-0.16	-0.36	2.66	-2.71	9.54	-4.50	32.13%	-14.57%
2002/03	-6.33	3.62	-0.93	1.69	1.62	4.28	1.80	1.23	-0.17	2.20	0.66	1.45	11.23	-1.08	51.58%	-14.43%
2003/04	3.72	6.97	1.59	2.45	-1.19	2.93	0.44	1.39	0.54	-0.07	0.32	2.16	23.16	22.37	36.03%	-3.74%
2004/05	3.07	1.39	4.18	4.46	3.68	1.38	3.83	0.32	-2.04	-3.41	0.79	3.22	22.57	24.75	26.86%	-5.18%
2005/06	1.34	0.74	3.91	-3.22	3.74	1.40	1.72	0.52	3.51	1.91	-0.43	2.03	18.33	24.20	27.57%	-3.95%
2006/07	-0.88	2.28	1.53	5.78	0.42	2.98	1.03	0.51	3.03	2.67	3.46	0.16	25.35	30.28	32.21%	-4.92%
2007/08	-0.61	-1.48	2.56	0.91	-1.90	-0.29	-9.27	-0.39	-1.46	1.58	0.91	-2.27	-11.56	-12.12	51.05%	-8.23%
2008/09	0.26	2.84	-5.78	-5.61	-3.76	3.37	-1.65	-1.16	5.75	4.72	0.91	2.86	1.94	-22.15	46.55%	-3.37%
2009/10	7.17	7.41	5.13	-0.98	1.75	3.51	-4.00	-0.23	3.46	-0.58	-5.67	-0.85	16.30	13.78	10.30%	-2.62%
2010/11	2.10	-1.10	4.72	3.27	0.07	3.41	-0.49	1.92	0.00	-1.59	-1.73	-0.77	9.99	12.17	14.13%	-3.98%
2011/12	-3.41	-0.59	-4.76	3.69	-2.82	-2.13	3.08	1.91	1.94	-0.20	-5.47	-0.37	-9.22	-7.04	23.28%	-3.47%
2012/13	3.27	2.95	1.21	3.61	0.07	3.07	4.47	4.47	0.32	4.54	-2.84	-1.39	26.09	20.67	7.24%	-0.19%
2013/14	3.27	1.31	4.56	2.53	-0.31	0.08	-2.33	2.23	1.70	-0.13	-0.01	-0.87	12.49	17.64	11.71%	-0.02%
2014/15	2.83	1.60	-2.02	1.99	-0.83	-0.72	3.46	6.25	0.40	-0.35	1.17	-2.97	10.98	5.67	18.55%	-0.34%
2015/16	1.61	-4.14	-2.72	3.42	-0.62	-1.70	-3.79	-1.43	4.39	3.08	2.25	-3.08	-3.16	2.01	19.81%	-0.29%
2016/17	5.14	1.29	1.25	-1.40	-0.03	2.94	0.23	-1.56	1.00	-0.07	0.07	-0.02	8.99	13.12	16.66%	-1.52%
2017/18	1.00	0.26	0.50	2.87	1.80	3.25	0.79	0.73	-2.72	1.74	0.68	1.58	13.08	13.73	21.63%	-3.71%
2018/19	0.39	-1.40	0.11	-7.18	-2.45	-1.17	0.06	2.43	0.17	1.41	0.34	-0.29	-7.63	11.04	39.30%	-3.30%
2019/20	2.23	-4.63	3.59	-0.99	3.96	2.13	2.74	-9.38	-26.24	10.83	5.72	2.17	-12.70	-7.21	13.58%	-1.65%
2020/21	3.13	5.12	-3.93	1.68	13.34	2.36	-1.03	3.98	1.03	4.35	1.05		34.69	26.99	2.38%	-0.17%
												Incept.	735.96	515.89		
												Incept.	10.30%pa	8.75%pa	26.47%	-4.96%

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

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