

K2 Australian Fund

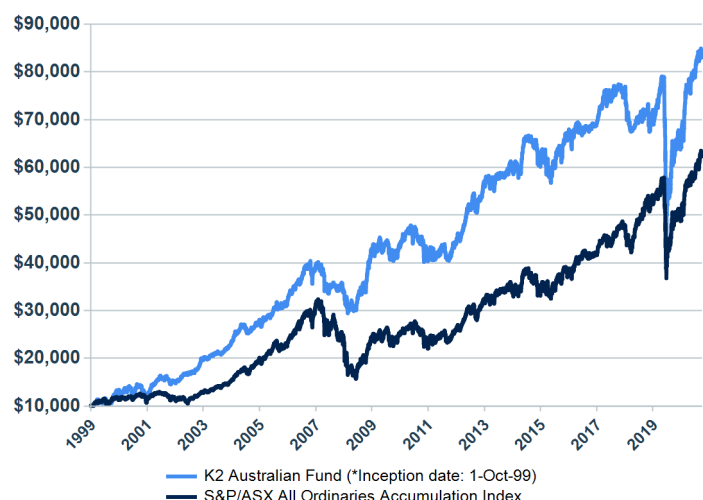
30 June 2021



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)	1.01%	6.51%	10.74%	36.05%	6.22%	6.46%	6.86%	10.31%

Growth of \$10,000



Top 5 Stock Holdings	Current	Monthly Move
Macquarie Group Ltd	8.6%	-0.1%
Medibank Private Ltd	7.8%	+0.2%
BHP Group Ltd	7.6%	-1.0%
Seven Group Holdings Ltd	6.9%	+0.3%
RIO Tinto Ltd	6.3%	-0.7%

Month End Exposures	Current	Monthly Move
Consumer	9.2%	+0.3%
Financials	45.7%	+1.3%
Health Care	7.8%	+0.1%
Industrials/Real Estate	15.8%	+0.9%
Materials	20.3%	-2.3%
Number of Positions	31	-1
Gross Equity Exposure	98.8%	-0.8%
Cash Weighting	1.2%	-1.3%
Net Equity Exposure	98.8%	+1.3%

George Boubouras
Head of Research
research@k2am.com.au
03 9691 6111

Marcela Tirado
Client Services
invest@k2am.com.au
03 9691 6111

Commentary

The K2 Australian Fund returned +1.01% for the month and has returned +36.1% over the past fiscal year to be +5.5% ahead of the benchmark (BM). The fund has delivered a consistent excess return vs the BM over the long run and since the severe March 2020 pandemic induced correction. Importantly, the fund has delivered an above BM and consistent 10.3%pa. return over 21 years without excess volatility.

As of the end of June, about 30% of Australia's adult population had received a COVID vaccine. This is well below the US and the UK where around 70% of their adult population have been vaccinated. Importantly, 70% of Australians over the age of 70 have received their first vaccine dose and 17% are already fully vaccinated. One of the consequences of Australia's relatively slow vaccine rollout is that projections for GDP growth over the year ahead are more than 1% lower than those for the US and the UK. This is understandable; however, we believe that by year end Australia will be displaying superior growth attributes. The rollout of Australia's COVID vaccine will ramp-up following the recent National Cabinet meeting. On the current run-rate it is likely that by September, 70% of Australia's adult population will have received a vaccine. It is also probable that economic destabilising lockdowns will become less frequent. Hence, we envisage that as we head into 2022, the domestic economy will be performing with more consistency, international students and economic visa holders will gradually re-emerge and GDP growth forecasts will surpass 5%. This backdrop should support earnings momentum for Australian companies for at least the next 12 months.

The best performing holdings for the Fund this month were Maas Group (MGH), Kina Securities (KSL) and Macquarie Group (MQG) which rose 20%, 6% and 3% respectively. During the month MGH announced that it would be acquiring various businesses for \$123m and subsequently raised up \$90m of equity. MGH is in growth mode; earnings for FY'22 are on track to be close to 50% higher than FY'21. Next quarter KSL will find out whether regulators will allow the highly accretive acquisition of Westpac's Pacific operations to proceed. KSL currently trades on a PE of just 7x. At its AGM in a few weeks MQG will give an update on the 1Q result which should be well up on last years' outcome.

The Fund's net exposure for the month averaged 98.7%. The median holding for the Fund has attractive characteristics; using consensus forecasts for the year ahead the PE is 14.3x, ROE is 12.8%, and the dividend yield is 3.4%. The market capitalisation of the median holding for the Fund is \$7.5 billion and EPS growth is expected to be +9.1% over the next 12 months.

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	1.01	36.05	30.24	2.29%	-0.18%	
													Incept.	744.41	531.65		
													Incept.	10.31%pa	8.84%pa	26.46%	-4.96%

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

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