

# K2 Australian Fund

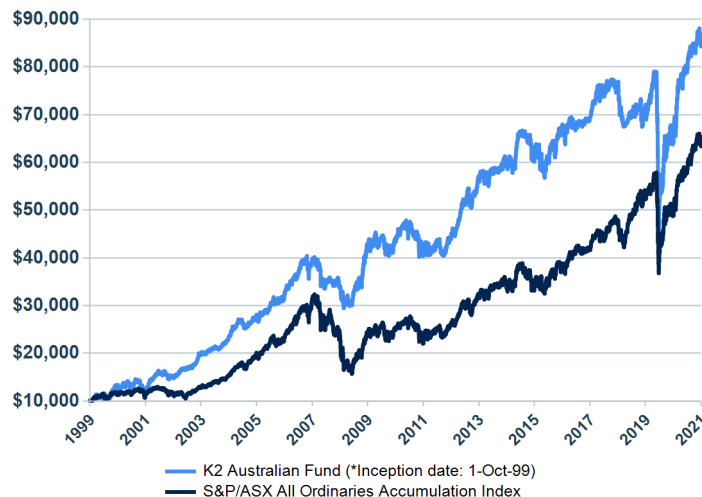
## 30 September 2021



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)	-1.35%	1.69%	8.31%	32.83%	4.98%	7.60%	6.77%	10.27%

### Growth of \$10,000



### Commentary

The K2 Australian Fund returned -1.35% for the month and +32.83% over the past year, outperforming the benchmark (BM) by +0.2% and +1.4% respectively. The fund has delivered an above BM and consistent +10.27% p.a. return over 22 years without excess market volatility.

During the month economists reduced next years' GDP growth estimate for Australia by 0.2% thus bringing the aggregate downgrade to 0.6% for the quarter. This is hardly surprising given that 57% of Australian's adult population reside in NSW and Victoria and both states are largely in COVID-19 lockdowns. However, we believe that over the coming months significant economic activity will be released as movement liberations evolve. Australia's saving rate is elevated at present and this should provide households with meaningful spending power next year. Business confidence has contracted over the past few months and is now as low as it was back during the GFC. We would expect business leaders to regain their courage by year end and we envisage that a new cycle of growth capital expenditure is forming. The Fund currently has 65% exposure to financials, industrials and discretionary retailers; these are typically the more economically cyclical segments of the market. We are mindful that regulators are concerned about emerging risks in the housing market. Loan serviceability thresholds have been increased but we are comforted by the fact that Australia's household debt to income has been stable for 5 years. It is also worth noting that Australia's household interest payments as a share of income is now at its lowest level in over 30 years.

Top 5 Stock Holdings	Current	Monthly Move
Ryman Healthcare Ltd	8.7%	+0.1%
Macquarie Group Ltd	8.5%	+0.9%
Seven Group Holdings Ltd	7.5%	+0.1%
BHP Group Ltd	6.1%	-1.0%
Insurance Australia Group	6.1%	+2.1%

The best performing holdings for the Fund this month were MAAS Group (MGH), Macquarie Group (MQG) and South32 (S32) which rose 24%, 9% and 12% respectively. MGH continues to expand its regional footprint with a series of smaller acquisitions during the month. MQG stated that trading conditions for the 1Q'22 were significantly stronger than the prior year. MQG continues to carry more than \$7 billion of surplus capital and extremely well placed to invest for growth. S32's suite of base metal commodities are exhibiting more strength than the ferrous metals. As a result S32 continues to enjoy upward earnings revisions whereas peers like BHP and RIO are seeing some downgrades.

Month End Exposures	Current	Monthly Move
Consumer	9.6%	+1.1%
Financials	42.3%	+0.9%
Health Care	11.1%	+0.5%
Industrials/Real Estate	19.6%	+0.7%
Materials	16.7%	-2.1%
Number of Positions	30	-1
Gross Equity Exposure	99.3%	+1.0%
Cash Weighting	0.7%	-1.0%
Net Equity Exposure	99.3%	+1.0%

The Fund's net exposure for the month averaged 98.9%. The median holding for the Fund is attractively priced; using consensus forecasts for the year ahead the PE is 14.2x and the ROE is 13.3%. The market capitalisation of the median holding for the Fund is \$7.3 billion.

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### Fund Characteristics

FUM	AUD \$18m
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%	
2021/22	0.49	2.58	-1.35										1.69	2.05	1.08%	0.00%	
													Incept.	758.67	544.58		
													Incept.	10.27%pa	8.84%pa	25.36%	-4.75%

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

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