

K2 Australian Fund

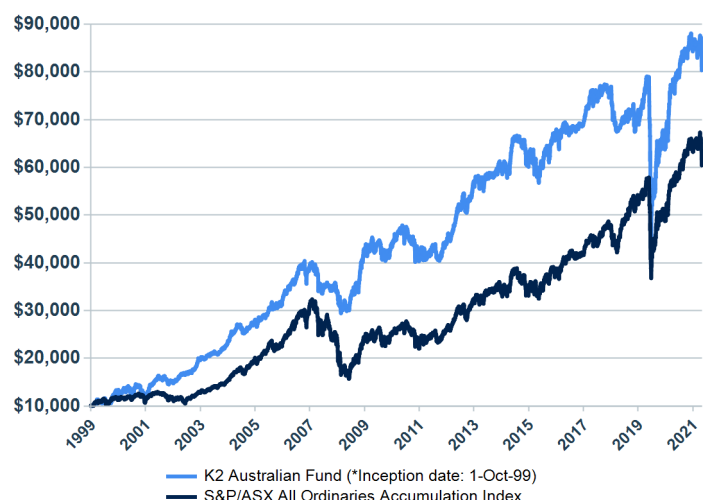
31 January 2022



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)	-5.82%	-4.76%	-4.09%	7.84%	3.51%	6.85%	5.68%	9.84%

Growth of \$10,000



Top 5 Stock Holdings	Current	Monthly Move
Macquarie Group Ltd	8.9%	-0.4%
Seven Group Holdings Ltd	8.5%	+0.6%
BHP Group Ltd	7.9%	+1.3%
Ryman Healthcare Ltd	6.4%	-1.1%
RIO Tinto Ltd	6.3%	+1.0%

Month End Exposures	Current	Monthly Move
Communication Services	1.9%	-0.1%
Consumer	9.3%	+0.4%
Financials	36.5%	-3.6%
Health Care	9.3%	-1.4%
Industrials/Real Estate	22.2%	+0.3%
Materials	19.2%	+1.1%
Number of Positions	30	0
Gross Equity Exposure	98.4%	-3.2%
Cash Weighting	1.6%	+3.2%
Net Equity Exposure	98.4%	-3.2%

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Commentary

The K2 Australian Fund returned -5.82% for the month of January which was +0.74% ahead of the index in a volatile month. Over the long term the fund has delivered an above benchmark (BM) +9.84% p.a. return over 22 years (after all fees).

Global equity markets were incredibly volatile during the month. Market participants reacted nervously to minutes from the US Federal Reserve's (FED) meeting in December 2021. Broadly the FED explained that the Omicron variant had caused its baseline economic activity projections to be skewed to the downside whereas its inflation projections were skewed to the upside. The FED also disclosed that it had begun discussions about the appropriate conditions and timing for the commencement of the balance sheet run off. Almost all members of the FED concluded that the balance sheet run-off should be initiated after the first increase in the federal funds rate. Three weeks later the FED announced, given inflation was well above 2% and the labour market was strong, it would soon be appropriate to raise rates. Market participants have rapidly priced in 4 rate hikes by the FED this year and equity prices around the world experienced a sharp retraction. The Reserve Bank of Australia (RBA) is taking a more patient approach to monetary policy than the FED. Australia has demonstrated that it has an advantageous inflationary setting and as a result CPI forecasts for the year ahead are 2% lower than the US. This means that the RBA can allow the economy to expand without the immediate risk of breaching 3% wage growth. We envisage that the Australian economy will be one of the best performers this year which should support corporate profits and equity market values.

The best performing holdings for the Fund this month were BHP Group (BHP) and RIO Tinto Group (RIO) which both rose 11%. Despite increased volatility around the world, most commodity prices strengthened during the month. BHP and RIO should both post strong profits for the 6 months to December 2021 and surplus capital should continue to be returned to shareholders.

The Fund's net exposure for the month averaged 99.0%. The median holding for the Fund is attractively priced; using consensus forecasts for the year ahead the PE is 13.3x, the ROE is 14.3% and the dividend yield is 4.3%. The market capitalisation of the median holding for the Fund is \$6.9 billion. The Fund's positioning can best be described as quality growth at an attractive price.

Fund Characteristics

FUM	AUD \$15m
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	-0.48	-1.43	2.58	-5.82						-3.62	-2.28	0.52%	0.00%
												Incept.	713.82	517.23		
												Incept.	9.84%pa	8.49%pa	25.33%	-4.75%

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

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