

# K2 Australian Fund

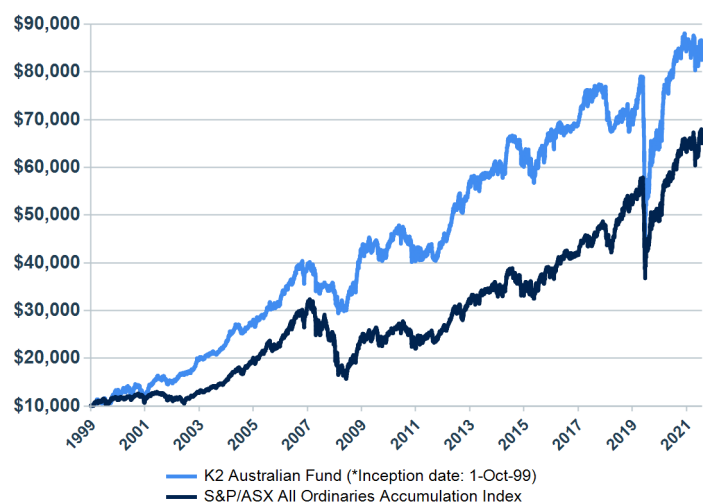
## 30 April 2022



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)	-1.70%	4.05%	-0.90%	2.36%	4.47%	6.89%	5.53%	9.92%

### Growth of \$10,000



Top 5 Stock Holdings	Current	Monthly Move
Macquarie Group Ltd	10.1%	+0.5%
BHP Group Ltd	7.7%	-0.3%
RIO Tinto Ltd	6.3%	-0.1%
Seven Group Holdings Ltd	6.1%	-0.1%
Medibank Private Ltd	5.9%	+0.4%

Month End Exposures	Current	Monthly Move
Communication Services	1.9%	-0.1%
Consumer	10.2%	-2.5%
Financials	38.1%	+0.9%
Health Care	3.1%	-2.9%
Industrials/Real Estate	17.6%	+0.3%
Information Technology	1.0%	0.0%
Materials	25.0%	+1.7%
Number of Positions	32	-4
Gross Equity Exposure	96.9%	-5.8%
Cash Weighting	3.1%	-0.5%
Net Equity Exposure	96.9%	+0.5%

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

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

### Commentary

K2 Australian Fund returned -1.70% for the month.

April was an extraordinary month. Russia continued with its invasion of the Ukraine. The CRB Food Index and the oil price both rose 4% and global inflation expectations for the year ahead subsequently moved 1% higher. Despite wide ranging sanctions, the Russian Ruble surged 15% against the US dollar. China continued with its pursuit to contain COVID outbreaks, which, when combined with some relaxed foreign exchange reserve requirements, saw the renminbi decline 4% against the US dollar. The CBOE Volatility Index (VIX) spiked 20 points to hit 33 by month end. The US 10-year bond yield rose 60 basis points to 2.93% taking it back to the same level as late 2018 when the Federal Reserve ceased its rate hike cycle. In response, central bankers around the world now feel compelled to tighten monetary policy, including the Reserve Bank of Australia (RBA). The RBA has tightened sooner than previously expected; business contacts now suggest that they are passing on higher costs of doing business to customers. In addition, there are a growing number of businesses that are alluding to larger wages increases. Ultimately the inflation pulse has quickened and financial conditions have tightened meaningfully.

One of the consequences of tighter financial conditions is that valuation metrics typically decline. We have noticed that companies in the US that have exhibited historically superior levels of revenue growth have lost 7 PE points this year. These growth companies today are trading on PE's of 16-17x next years expected earnings. In Australia, similar growth oriented companies have lost 12 PE points but still look relatively expensive at 27x. More broadly, the ASX 200 has lost 5 PE points this year and is now trading below 15x next years' earnings. We estimate that the weighted average cost of capital for Australian equities has risen by around 1.5% this year and equates to about 2 PE points. Hence, we can only assume that market participants expect interest rates to rise significantly higher or that future profits will be jeopardised by tighter financial conditions. Our feeling is that supply bottlenecks will subside, surge pricing will taper and cash rates will not sky rocket.

The best performing holdings for the Fund this month were Mineral Resources (MIN), Medibank Private (MPL) and ASX Ltd (ASX) which rose 11%, 4% and 6% respectively. MIN announced that, in response to heightened global lithium demand, it would increase its production of spodumene. MPL has been winning market share in recent quarters and this trend should continue. When interest rates rise, ASX enjoys increased trading of future contracts and higher income earned off members' collateral balances.

### Fund Characteristics

FUM	AUD \$15m
Portfolio Managers	Campbell Neal, David Poppenbeek and Bill Laister
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	2.00	3.79	-1.70			0.28	5.41	0.81%	-0.22%	
													Incept.	746.80	565.83		
													Incept.	9.92%pa	8.76%pa	25.35%	-4.76%

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

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