

K2 Australian Fund

30 June 2022

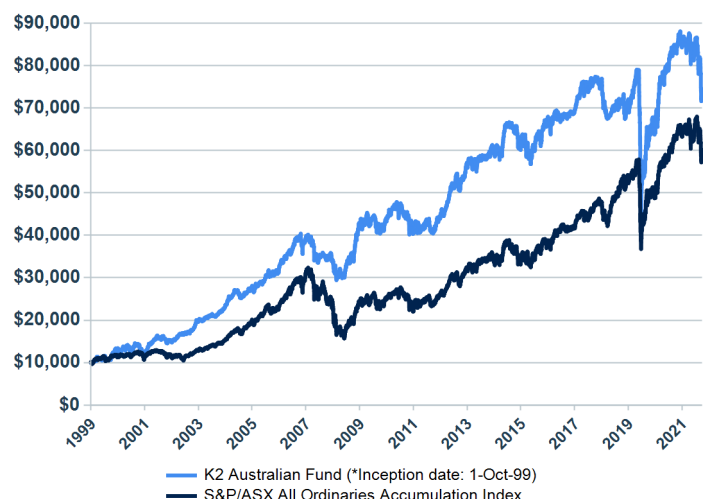


The K2 Australian Fund is an Absolute Return equities fund. The fund is index-unaware, aiming to produce positive absolute returns over the long term with a capital preservation mindset. The Fund's mandate allows it to actively manage its net market exposure – utilising both cash and shorts to help protect clients' capital.

	1 Month	Unit Price	Inception (%pa)
Performance (Net of Fees)	-10.94%	157.89	9.11%

Refer below detailed performance data matrix

Growth of \$10,000



Top 5 Stock Holdings	Current	Monthly Move
Macquarie Group Ltd	9.6%	+0.1%
BHP Group Ltd	8.0%	+0.4%
Medibank Private Ltd	7.1%	+1.0%
RIO Tinto Ltd	6.9%	+0.2%
Seven Group Holdings Ltd	6.0%	+0.1%

Market Capitalisation Coverage	Current	Monthly Move
Large Caps >=AUD\$7.5b	55.8%	+2.0%
Mid Caps >=AUD\$2b < AUD\$7.5b	20.8%	-4.7%
Small Caps < AUD\$2b	19.4%	+1.5%

Month End Exposures	Current	Monthly Move
Communication Services	1.6%	-0.1%
Consumer	9.4%	+0.5%
Energy	4.1%	+3.2%
Financials	42.1%	+5.5%
Health Care	3.9%	-0.6%
Industrials/Real Estate	17.6%	-3.6%
Materials	17.3%	-6.2%
Number of Positions	31	0
Gross Equity Exposure	96.0%	-1.3%
Cash Weighting	4.0%	+1.3%
Net Equity Exposure	96.0%	-1.3%

Commentary

The K2 Australian Fund returned -10.94% for the month.

The Reserve Bank of Australia (RBA) is well and truly in tightening mode thanks to some exogenous factors; the Fair Work Commission concluded that the National Minimum Wage would rise by 5.2% in FY2023 and this coincided with volatile energy prices resulting from strains on the structure of the nation's distribution network. It would also appear that the RBA has picked up signals that some business leaders have stepped away from the prior disciplined cost culture. As a result, the RBA probably feels that it needs to help anchor inflationary pressures before they become too embedded into everyday life. Fortunately, despite elevated headline inflation, the number of Australian industrial disputes at present is 90% lower than in 1985 when the annual CPI reading was at a similar level. Higher wages should reflect productivity gains as opposed to preserving the level of real purchasing power.

Global food and oil prices are on average 30% higher than last year and this has contributed to global inflation expectations rising 1.5%. Historically, a prolonged elevation in food and oil prices has led to a supply response that typically comes online well after prices have peaked. We have also noted that when food and oil prices move 30% quickly, global measures of risk move sharply higher and mis-priced assets are subsequently exposed. From an equity market perspective, the risks have clearly shifted away from valuations and towards earnings. Australia's mining industry is contending with higher operating costs; a number of gold companies have already guided to lower profits for the June half. In addition, debt hedging strategies of REITs have been explored and a number of downward revisions have followed. Hence, during June, sell-side analysts downgraded EPS forecasts for 40% of the companies in the ASX200.

The best performing holdings for the Fund this month were QBE Insurance Group (QBE) and Medibank Private (MPL) which rose for the month. Australia banks were the largest detractors for the Fund this month; Macquarie Group (MQG), Judo Capital (JDO) and Bendigo Bank (BEN) all declined by more than 10%. Market participants are pricing a sharp recession into bank share prices; a view that we do not agree with.

The median holding for the Fund, using next years' estimates, trades on a PE of 11.5x, generates an ROE of 14.1% and offers a dividend yield of 5.4%.

Fund Characteristics

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

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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	-3.68	-10.94	-13.98	-7.44	1.14%	-0.19%
												Incept.	626.38	484.64		
												Incept.	9.11%pa	8.07%pa	25.36%	-4.76%

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

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