

# K2 Australian Fund

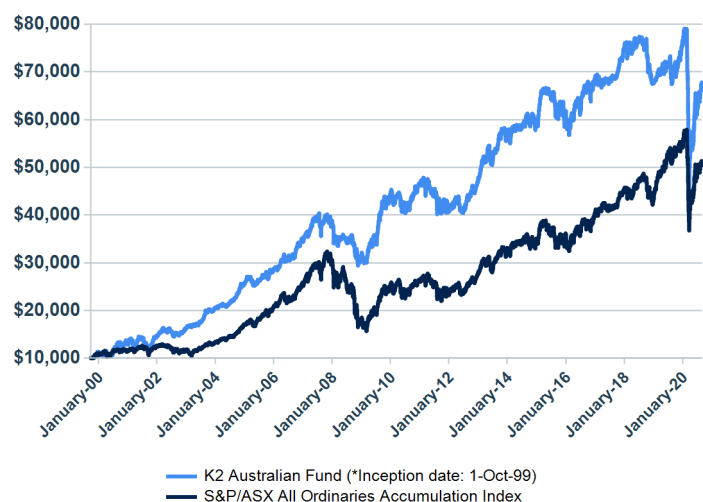
## 31 August 2020



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	Inception (%pa)	Inception Date
Performance (Net of Fees)	5.1%	9.5%	1-Oct-1999
Average Net Exposure	96.2%	72.9%	

### Growth of \$10,000



Top 5 Stock Holdings	Current	Monthly Move
BHP Group Ltd	9.1%	-0.3%
Macquarie Group Ltd	8.3%	-0.2%
RIO Tinto Ltd	8.1%	-0.7%
Seven Group Holdings Ltd	6.9%	+0.9%
Insurance Australia Group	5.6%	+0.3%

Month End Exposures	Current	Monthly Move
Communication Services	0.9%	-0.1%
Consumer	7.7%	-3.0%
Financials	35.3%	+0.0%
Health Care	8.0%	+2.7%
Industrials	13.5%	+0.5%
Materials	30.0%	+1.1%
Real Estate	3.1%	-0.3%
SHORTS	-0.5%	-0.5%
Number of Positions	38	+1
Gross Equity Exposure	99.0%	+1.4%
Cash Weighting	2.0%	-0.4%
Net Equity Exposure	98.0%	+0.4%

### Commentary

The K2 Australian Fund returned 5.1% for the month of August. The fund has performed strongly for five consecutive months and has returned +30% since 31 March significantly outperforming the benchmark return of 23%. A combination of good stock selection and investing cash early in the cycle have contributed to the strong excess return of +7% vs benchmark for investors in just five months.

Since the COVID-19 virus emerged, more than half of the ASX200 companies have experienced EPS downgrades every month. Equity analysts appear to be mainly focused on household activity constraints and the subdued level of business investment. There appears to be little appreciation for the meaningful fiscal and monetary support and the fact that this stimulus will stay in place for quite some time yet. The global economic outlook is still uneven however current readings are certainly better than what was expected last quarter. In Australia, GDP expectations for the year ahead have already improved by nearly 2.5% over the past 6 months. Despite this, EPS forecasts continue to trend down. We believe that EPS projections will improve significantly over the year ahead and share prices should continue to move higher. The Fund continues to be optimistically positioned.

The best performing holdings for the Fund were Corporate Travel (CTD), Netwealth (NWL) and Money3 (MNY) which rose 83%, 16% and 26% respectively. Market participants love to hate CTD so, unsurprisingly during the 3 weeks leading up to CTD's 2H profit release, \$30 million was short sold. Despite difficult trading conditions, CTD delivered better costs and a stronger balance sheet. In addition, CTD, unlike its peers, did not need to embark upon a highly dilutive capital raising. This helped CTD rally strongly post result as short sellers scrambled to cover. NWL announced a better profit than expected and stated that it expected to receive net inflows for FY2021 of \$8 billion which was more than 10% ahead of expectations. MNY is a provider of consumer finance for the purchase and maintenance of vehicles in Australia and New Zealand. During the month MNY announced a strong FY2020 result; the loan book rose 16% which led to more than 30% growth in the underlying EPS for the year.

The Fund's net exposure for the month averaged 96.2% and no short positions were held during the month. The median holding for the Fund has favourable characteristics when compared to the ASX200; the PE is 12% lower, ROE is 5% stronger, dividend yield is 10% higher and the EPS growth is 4.0%pa faster.

### Fund Characteristics

FUM	AUD \$22m
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

**George Boubouras**  
Head of Research  
invest@k2am.com.au

## 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				1.9	2.0	9.5	-3.9	-2.6	5.6	-4.0	-1.9	2.4	8.5	16.0	52.0%	-12.8%
2000/01	13.1	6.8	-3.1	0.1	4.5	0.9	4.5	-2.9	-11.9	13.0	5.2	0.5	32.2	8.8	27.7%	-16.7%
2001/02	-7.9	-4.8	-5.4	8.7	11.5	1.8	3.9	3.5	-0.2	-0.4	2.7	-2.7	9.5	-4.5	32.1%	-14.6%
2002/03	-6.3	3.6	-0.9	1.7	1.6	4.3	1.8	1.2	-0.2	2.2	0.7	1.5	11.2	-1.1	51.6%	-14.4%
2003/04	3.7	7.0	1.6	2.5	-1.2	2.9	0.4	1.4	0.5	-0.1	0.3	2.2	23.2	22.4	36.0%	-3.7%
2004/05	3.1	1.4	4.2	4.5	3.7	1.4	3.8	0.3	-2.0	-3.4	0.8	3.2	22.6	24.7	26.9%	-5.2%
2005/06	1.3	0.7	3.9	-3.2	3.7	1.4	1.7	0.5	3.5	1.9	-0.4	2.0	18.3	24.2	27.6%	-3.9%
2006/07	-0.9	2.3	1.5	5.8	0.4	3.0	1.0	0.5	3.0	2.7	3.5	0.2	25.3	30.3	32.2%	-4.9%
2007/08	-0.6	-1.5	2.6	0.9	-1.9	-0.3	-9.3	-0.4	-1.5	1.6	0.9	-2.3	-11.6	-12.1	51.1%	-8.2%
2008/09	0.3	2.8	-5.8	-5.6	-3.8	3.4	-1.6	-1.2	5.7	4.7	0.9	2.9	1.9	-22.1	46.6%	-3.4%
2009/10	7.2	7.4	5.1	-1.0	1.8	3.5	-4.0	-0.2	3.5	-0.6	-5.7	-0.9	16.3	13.8	10.3%	-2.6%
2010/11	2.1	-1.1	4.7	3.3	0.1	3.4	-0.5	1.9	0.0	-1.6	-1.7	-0.8	10.0	12.2	14.1%	-4.0%
2011/12	-3.4	-0.6	-4.8	3.7	-2.8	-2.1	3.1	1.9	1.9	-0.2	-5.5	-0.4	-9.2	-7.0	23.3%	-3.5%
2012/13	3.3	2.9	1.2	3.6	0.1	3.1	4.5	4.5	0.3	4.5	-2.8	-1.4	26.1	20.7	7.2%	-0.2%
2013/14	3.3	1.3	4.6	2.5	-0.3	0.1	-2.3	2.2	1.7	-0.1	0.0	-0.9	12.5	17.6	11.7%	0.0%
2014/15	2.8	1.6	-2.0	2.0	-0.8	-0.7	3.5	6.2	0.4	-0.3	1.2	-3.0	11.0	5.7	18.5%	-0.3%
2015/16	1.6	-4.1	-2.7	3.4	-0.6	-1.7	-3.8	-1.4	4.4	3.1	2.2	-3.1	-3.2	2.0	19.8%	-0.3%
2016/17	5.1	1.3	1.3	-1.4	0.0	2.9	0.2	-1.6	1.0	-0.1	0.1	0.0	9.0	13.1	16.7%	-1.5%
2017/18	1.0	0.3	0.5	2.9	1.8	3.2	0.8	0.7	-2.7	1.7	0.7	1.6	13.1	13.7	21.6%	-3.7%
2018/19	0.4	-1.4	0.1	-7.2	-2.4	-1.2	0.1	2.4	0.2	1.4	0.3	-0.3	-7.6	11.0	39.3%	-3.3%
2019/20	2.2	-4.6	3.6	-1.0	4.0	2.1	2.7	-9.4	-26.2	10.8	5.7	2.2	-12.7	-7.2	13.6%	-1.6%
2020/21	3.1	5.1											8.4	4.7	3.5%	-0.1%
												Incept	572.8	407.7		
												Incept	9.5%pa	8.1%pa	26.5%	-5.0%

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

DISCLAIMER: Returns are shown after fees (including performance fees) and expenses have been deducted and assume the reinvestment of income distributions. Please note that past performance is not a reliable indicator of future performance. The information contained in this document is produced by K2 Asset Management Ltd ("K2") in good faith, but does not constitute any representation or offer by K2. It is subject to change without notice, and is intended as general information only and is not complete or definitive. K2 does not accept any responsibility, and disclaims any liability whatsoever for loss caused to any party by reliance on the information in this document. A product disclosure statement for general information on any Fund referred to in this document can be obtained at [www.k2am.com.au](http://www.k2am.com.au) or by contacting K2. You should read the product disclosure statement and consider whether the product is appropriate for you before making a decision to acquire or continue to hold an interest in a Fund. Fees referred to in this document are inclusive of GST and RITC and do not include expense recoveries.