

# K2 Australian Fund

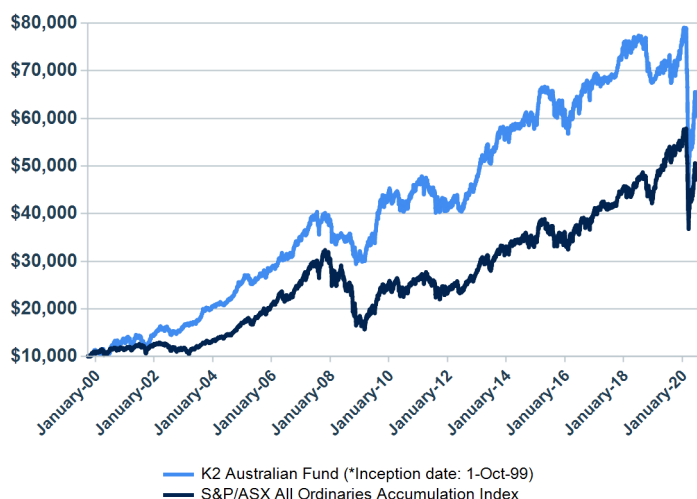
## 31 July 2020



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	3 Months	1 Year	3 Years (%pa)	5 Years (%pa)	10 Years (%pa)	15 Years (%pa)	Inception (%pa)	Inception Date
Performance (Net of Fees)	3.1%	11.4%	-11.9%	-2.4%	-0.5%	4.3%	6.0%	9.3%	1-Oct-1999
Average Net Exposure	96.7%	96.2%	88.5%	76.3%	78.2%	81.6%	76.7%	72.8%	

### Growth of \$10,000



### Commentary

The K2 Australian Fund returned 3.13% for the month of July.

Over the course of July, Victoria reported over 8,300 new cases of coronavirus. Mid-month the Victorian Premier enforced the Stage 3 "Stay at Home" restriction. By month end, the state had transitioned to curfews and the Stage 4 restriction. There is little doubt that Victoria's mishandling of the coronavirus will have ramifications for Australia's level of economic activity. However, the country will not sink into depression. Over \$300 billion of stimulus has been directed towards Australian households and businesses. Interest rates will clearly stay lower for longer and Australia's listed companies continue to build fortress balance-sheets. To our mind, 1/5th of Australia's economy has gone back into hibernation. The rest of the country has awoken and should quickly adapt to the new rules of doing business.

The best performing holdings for the Fund were Netwealth (NWL) and NZ retirement provider Summerset (SUM) which rose 34% and 21% respectively. NWL announced that it had continued to win share of the Australian platform market. It again led the market in net inflows and has lifted its share to 3.6% to be the #7 player in the market. SUM announced that its first half profit would be about 10% lower than last year but customer activity had improved to be stronger than usual. Resource holdings in OZ Minerals (OZL) and Fortescue Metals Group (FMG) also performed well both rising 25% during the month. Insurance Australia Group (IAG) was the main detractor to performance falling 12%. IAG announced the underlying insurance margin for the June half would be 15% but a \$167 million loss on its investment portfolio and a \$250 million provision would offset this. Although IAG still managed to deliver a \$150 million profit for the half the board would most likely avoid paying a final dividend. By month end the Fund had lifted its holding in IAG to over 5%.

The Fund's net exposure for the month averaged 96.7% and no short positions were held during the month.

Top 5 Stock Holdings	Current	Monthly Move
BHP Group Ltd	9.4%	-0.7%
RIO Tinto Ltd	8.8%	-0.6%
Macquarie Group Ltd	8.4%	-0.6%
Seven Group Holdings Ltd	6.0%	+0.3%
Insurance Australia Group	5.3%	+2.6%

Month End Exposures	Current	Monthly Move
Communication Services	1.0%	-0.9%
Consumer	10.7%	+4.3%
Financials	37.2%	0.0%
Health Care	5.3%	-1.7%
Industrials	13.1%	+1.0%
Materials	28.8%	-1.0%
Real Estate	1.5%	-0.9%
Number of Positions	37	-2
Gross Equity Exposure	97.6%	-0.3%
Cash Weighting	2.4%	+0.3%
Net Equity Exposure	97.6%	-0.3%

### 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  
 03 9691 6191  
 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												3.1	0.9	3.3%	-0.1%	
													Incept	540.1	389.6		
													Incept	9.3%pa	7.9%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.