

# K2 Australian Fund

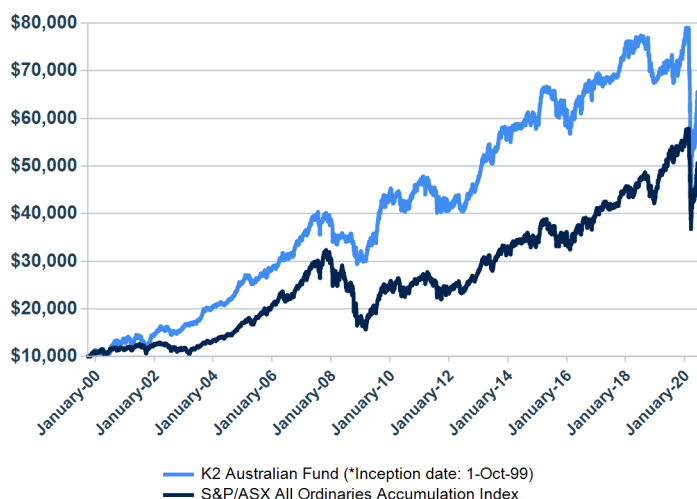
## 30 June 2020



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)	2.2%	19.7%	-12.7%	-3.0%	-0.8%	4.2%	5.9%	9.2%	1-Oct-1999
Average Net Exposure	97.8%	92.1%	86.4%	75.2%	77.8%	81.4%	76.4%	72.7%	

### Growth of \$10,000



### Commentary

The K2 Australian Fund returned +2.17% for the month of June.

Since COVID-19 was declared a pandemic by the World Health Organisation, Australian listed companies have raised \$30 billion of secondary equity. The surplus equity certainly provides liquidity for businesses throughout the economic lockdown. However, it also creates a drag on earnings per share growth as economic hibernation fades. We are all for ensuring that listed companies survive and then thrive through this extraordinary phase. However, we believe that capital raisings in the future must be for growth supporting ventures. Australian providers of capital need to take some of the responsibility for the local markets single digit ROE. The ASX 200 is now trading on a PE of 18x and this can only be sustained if ROE's improve by at least 200 basis points over the coming year.

The best performing holdings for the Fund were Macquarie Group (MQG), RIO Tinto (RIO) and Netwealth Group (NWL) which rose 8%, 5% and 8% respectively during the month. Macquarie is now up 70% from the March 23rd low but is still down 10% calendar year to date. Macquarie will hold its AGM in 4 weeks' time and should provide some updates on current trading conditions. However, we do not expect any formal profit guidance. RIO continues to benefit from improving commodity prices as COVID-19 related supply constraints continue to plague export nations like Brazil and Chile. NWL will most likely provide a 4th quarter business update in July. We would expect NWL to continue to lead the market in net inflows. In addition, stronger asset prices in the June quarter should supplement the end of year level of funds under administration.

The Fund's net exposure for the month averaged 97.8% and no short positions were held during the month. The last time the fund held zero short exposure was in October 2015. The ASX200 subsequently rallied 70% over the next 4 years.

Top 5 Stock Holdings	Current	Monthly Move
BHP Group Ltd	10.1%	+0.5%
RIO Tinto Ltd	9.4%	+0.6%
Macquarie Group Ltd	9.0%	-0.3%
Seven Group Holdings Ltd	5.8%	+0.4%
Netwealth Group Ltd	5.5%	+0.6%

Month End Exposures	Current	Monthly Move
Communication Services	1.9%	+0.2%
Consumer	6.5%	-1.5%
Energy	1.0%	+0.5%
Financials	37.2%	+4.1%
Health Care	7.0%	+0.9%
Industrials	12.1%	+0.3%
Materials	29.8%	+3.1%
Real Estate	2.4%	-1.6%
Number of Positions	39	-3
Gross Equity Exposure	97.9%	+6.1%
Cash Weighting	2.1%	-6.1%
Net Equity Exposure	97.9%	+6.1%

### Fund Characteristics

FUM	AUD \$23m
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

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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				1.9	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%	
													Incept	520.6	385.0		
													Incept	9.2%pa	7.9%pa	27.6%	-5.2%

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

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