

K2 Australian Fund

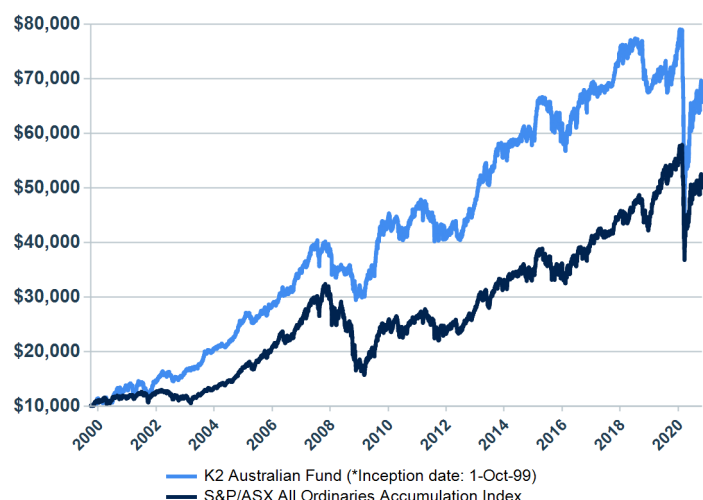
31 October 2020



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)	1.7%	9.3%	1-Oct-1999
Average Net Exposure	97.4%	73.1%	

Growth of \$10,000



Top 5 Stock Holdings	Current	Monthly Move
Macquarie Group Ltd	8.6%	+0.2%
BHP Group Ltd	7.7%	-1.0%
Seven Group Holdings Ltd	7.6%	+0.6%
RIO Tinto Ltd	7.2%	-0.7%
Pendal Group Ltd	5.5%	+1.0%

Month End Exposures	Current	Monthly Move
Consumer	10.0%	+3.2%
Financials	41.4%	+4.2%
Health Care	7.8%	-1.0%
Industrials	13.3%	-0.1%
Materials	23.4%	-5.3%
Real Estate	1.9%	+0.1%
Number of Positions	34	-1
Gross Equity Exposure	97.8%	-0.1%
Cash Weighting	2.2%	-2.0%
Net Equity Exposure	97.8%	+2.0%

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Commentary

The K2 Australian Fund returned +1.7% for the month of October and has now returned +6% this financial year. Since the March lows the fund is up a very strong +47% outperforming the benchmark by +11%. The combination of good stock selection and investing cash early in the recovery have contributed to the strong performance vs benchmark since the March correction.

During the month, the Australian Treasurer delivered the 2020/21 Budget. For the year ahead the underlying deficit is expected to be \$213 billion (11% of GDP) and gross debt is estimated to reach \$872 billion (45% of GDP). The Budget included nearly \$100 billion of support in response to the COVID pandemic. Personal income tax relief, business investment incentives, a targeted modern manufacturing strategy and new and accelerated infrastructure projects have all been designed to rebuild the economy. The RBA Governor also delivered a speech that suggested that interest rates could be lower for longer; potentially for up to 3 years. Then late in the month it was announced that Victoria would move out of COVID lockdown and gradually progress towards reopening. As a result of all these measures we believe that Australian listed market EPS growth projections will start to accelerate; greater activity will drive profit growth which will no longer be diluted by overly cautious equity raisings.

The best performing holdings for the Fund were Pendal Group (PDL), Seven Group (SVW) and Macquarie Group (MQG) which rose 18%, 8% and 6% respectively. PDL is a recent addition to the portfolio. We believe that PDL is well positioned to benefit from a continuation of equity market gains. The asset management operations of JO Hambro are PDL's most profitable business. JO Hambro was acquired in 2011 and has subsequently generated more than \$340 million in performance fees. JO Hambro's performance fees are determined on a December year end basis and could exceed \$50 million this year. SVW and MQG are both well positioned to benefit from the Budget measures; SVW will see an improved level of demand from the construction sector whereas Macquarie always tends to leverage off heightened levels of infrastructure expenditure. The main detractors to performance were Austal Limited (ASB), BHP Group (BHP) and Corporate Travel Management (CTD).

The Fund's net exposure for the month averaged 97.4%. The median holding for the Fund has favourable characteristics when compared to the All Ordinaries Index; using consensus forecasts for the year ahead the PE is 14% lower, ROE is 29% stronger, and the dividend yield is 22% higher. The market capitalisation of the median holding for the Fund is more than 4 times larger than that of the All Ordinaries Index.

Fund Characteristics

FUM	AUD \$19m
Portfolio Managers	Campbell Neal, David Popenbeek 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

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	-3.9	1.7									5.9	3.2	2.9%	-0.2%
												Incept	557.3	400.5		
												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 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.