

# K2 Australian Fund

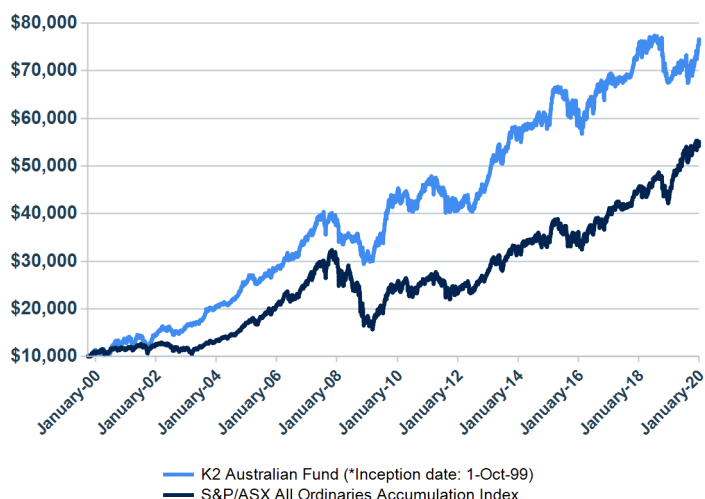
## 31 December 2019



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)	2.1%	5.1%	10.6%	3.4%	4.8%	5.4%	7.4%	10.5%	1-Oct-1999
Average Net Exposure	89.8%	87.3%	69.2%	72.4%	76.5%	81.4%	75.6%	72.3%	

### Growth of \$10,000



### Commentary

The K2 Australian Fund returned 2.1% for the month of December.

The best performing holding for the Fund was Medical Developments (MVP) which rose 27% for the month. MVP has been in the portfolio since 2015 and continues to offer significant growth prospects. During the month MVP announced that, after several years, the Russian Ministry of Health had agreed to review the application for Pentrox to be approved for Trauma pain. The Fund's holdings in New Zealand aged care operators Summerset (SUM) and Metlifecare (MET) also continued to perform well for the month both rising 16%. MET's Board announced that it unanimously recommended that shareholders vote in favour of a bid from EQT Infrastructure to acquire the company at NZ\$7.00 per share. Shareholders will vote on the transaction in April 2020 with implementation expected in May. We decided to sell our holding at a slight discount to the takeover price.

During the month, eight of the ten key industry sectors of the ASX 200 posted declines. The Fund on the other hand generated positive performance contributions from all but one sector, Industrials, where Austal (ASB) was the largest detractor to performance. ASB, after more than doubling in price during the year, declined 9% for the month. Despite its relatively high valuation, we are still comfortable holding ASB as we see a significant number of growth opportunities over the coming years.

The Fund's net exposure for the month averaged 89.7%; long and short exposure averaged 91.2% and 1.5% respectively. The Fund's average net exposure for 2019 was 69%. Looking forward we would expect the Fund's short exposure to gradually build during 2020. Equity prices have significantly outperformed earnings and as a result, the ASX 200 is now trading on relatively full PE of 17.5x next year's profit.

Top 5 Stock Holdings	Current	Monthly Move
Macquarie Group Ltd	8.0%	-0.8%
BHP Group Ltd	7.2%	-0.3%
RIO Tinto Ltd	6.2%	-0.4%
Seven Group Holdings Ltd	5.2%	+0.2%
Summerset Group Holdings Ltd	4.9%	+0.2%

Month End Exposures	Current	Monthly Move
Communication Services	1.3%	0.0%
Consumer	15.2%	+0.5%
Energy	2.4%	+0.4%
Financials	30.7%	-2.0%
Health Care	11.1%	-0.5%
Industrials	12.2%	+0.7%
Materials	14.9%	-1.2%
SHORTS	-2.1%	+0.5%
Number of Positions	36	-2
Gross Equity Exposure	89.9%	-2.6%
Cash Weighting	14.3%	+1.6%
Net Equity Exposure	85.7%	-1.6%

### Fund Characteristics

FUM	AUD \$33m
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							6.2	3.6	17.1%	-1.6%	
													Incept	654.9	441.4		
													Incept	10.5%pa	8.7%pa	27.8%	-5.2%

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

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