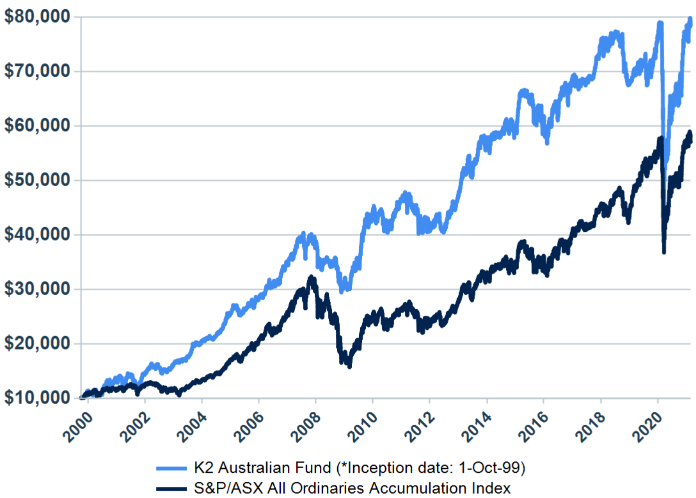
K2 Australian Fund
28 February 2021

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)	4.0%	10.1%	1-Oct-1999
Average Net Exposure	98.8%	73.4%	

Growth of $10,000



Top 5 Stock Holdings	Current	Monthly Move
BHP Group Ltd	9.9%	+1.1%
Macquarie Group Ltd	9.2%	+0.6%
RIO Tinto Ltd	8.3%	+1.0%
Seven Group Holdings Ltd	6.8%	-0.3%
Medibank Private Ltd	6.2%	+0.2%

Month End Exposures	Current	Monthly Move
Consumer	6.1%	-0.6%
Financials	42.2%	-2.7%
Health Care	8.0%	-0.2%
Industrials	10.1%	+0.7%
Materials	28.3%	+2.4%
Real Estate	4.7%	+2.5%
Number of Positions	**34**	**+2**
Gross Equity Exposure	**99.4%**	**+2.2%**
Cash Weighting	**0.6%**	**-2.2%**
Net Equity Exposure	**99.4%**	**+2.2%**

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Commentary

The K2 Australian Fund returned +4.0% for the month and has returned +26.4% this financial year to be +8.7% ahead of the benchmark (BM). Since the lows of the March correction the fund is up +75.2% outperforming the BM by +20.0%. The combination of good stock selection and investing cash early in the recovery have contributed to the strong performance vs benchmark since the severe March correction. Importantly, the fund has delivered a consistent 10% p.a. return over 21 years without excess market volatility.

Just like last month, equity markets around the world endured a bout of selling pressure during the last few days of the month. This time around market participants had to contend with the biggest weekly sell-off in bond prices in over 30 years. It is hard to pinpoint what the exact catalyst was for the rapid decline in bond prices, however, higher commodity prices and the COVID-19 vaccine rollout clearly contributed. We feel that the recent spike in interest rates could prompt central banks to increase their near-term velocity of government bonds purchases. We should not lose sight of the fact that authorities like the Reserve Bank of Australia (RBA) could end up owning a substantial portion of the outstanding government bond inventory; they are not governed by asset allocation committees and, unlike the bond bears, have no problem owning 25%+ of the stock of government paper. Ultimately the laws of supply and demand will play out so we feel that it may be too early to assume that bond prices can only fall from here.

During the month we selectively reduced our holdings in the major banks. We certainly anticipate that banks will enjoy less bad debt provisioning headwinds over the coming year. However, we are conscious that the major banks are experiencing a convergence in growth strategies. Non-core assets are being relinquished and capital is being reallocated towards low risk, domestic lending activities. Unfortunately, the Australian lending market is already over serviced and we feel that too much capital is chasing too few opportunities. We have instead chosen to tilt our financial exposure towards more specialised service providers like Macquarie Group (MQG), Medibank Private (MPL), ASX Ltd (ASX) and Dexus (DXS).

The best performing holdings for the Fund this month were BHP Group (BHP), RIO Tinto (RIO) and MQG which rose 13%, 15% and 8% respectively. BHP delivered a strong interim profit with a 16% improvement in underlying EPS and a 55% lift in the DPS. RIO also produced a strong result for the half; ROCE was 27% and earnings and dividends rose 22% and 26% respectively. MQG has improved its earnings momentum. Market expectations were that FY'21 would be well below the prior year. Yet during an operational briefing early in the month MQG stated that profits in FY'21 would be "slightly down" on last year. Then, 2 weeks later, MQG announced that a favourable US energy market meant that FY'21 profits would be 5-10% above FY'20.

Fund Characteristics	
FUM	AUD $21m
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

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	13.3	2.4	-1.0	4.0					**26.4**	17.7	*2.6%*	*-0.1%*
												Incept	**684.7**	470.8		
												Incept	**10.1%pa**	8.5%pa	***26.5%***	***-5.0%***

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

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