

K2 Australian Fund

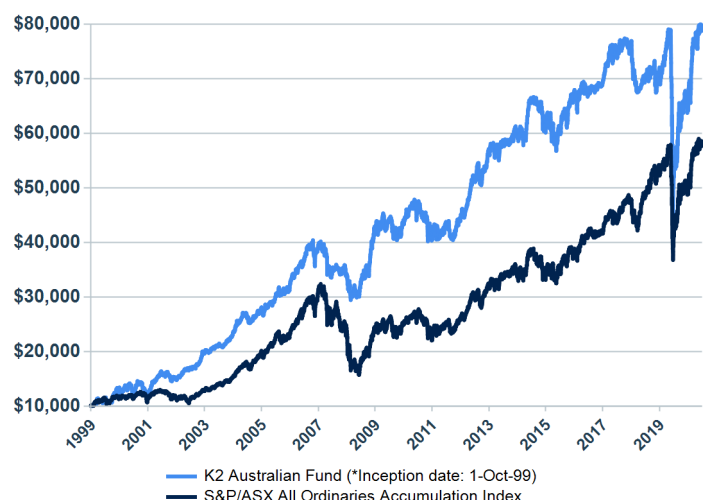
31 March 2021



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 | 3 Months | 6 Months | 1 Year | 5 Years (%pa) | 10 Years (%pa) | 15 Years (%pa) | Inception (%pa) |
|---------------------------|---------|----------|----------|--------|---------------|----------------|----------------|-----------------|
| Performance (Net of Fees) | 1.03% | 3.96% | 22.64% | 52.90% | 5.33% | 5.36% | 6.65% | 10.11% |

Growth of \$10,000



| Top 5 Stock Holdings | Current | Monthly Move |
|--------------------------|---------|--------------|
| Macquarie Group Ltd | 9.3% | +0.1% |
| BHP Group Ltd | 8.6% | -1.4% |
| Seven Group Holdings Ltd | 7.2% | +0.4% |
| Medibank Private Ltd | 6.8% | +0.6% |
| RIO Tinto Ltd | 6.5% | -1.9% |

| Month End Exposures | Current | Monthly Move |
|-----------------------|---------|--------------|
| Consumer | 7.5% | +1.4% |
| Financials | 45.9% | +3.7% |
| Health Care | 6.2% | -1.8% |
| Industrials | 12.3% | +2.2% |
| Materials | 23.3% | -5.0% |
| Real Estate | 3.6% | -1.1% |
| Number of Positions | 34 | 0 |
| Gross Equity Exposure | 98.9% | -0.6% |
| Cash Weighting | 1.1% | +0.6% |
| Net Equity Exposure | 98.9% | -0.6% |

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Commentary

The K2 Australian Fund returned +1.03% for the month. Twelve months ago, despite all the fears surrounding the COVID pandemic, we stated that "We believe that today's investment opportunities are as attractive as those that were presented to the Fund during the 1st quarter of 2009". Pleasingly, over the last 12 months, the Fund has delivered a +53% return. This is the strongest annual return in the Fund's 22 year life. Importantly, the fund has delivered a consistent 10.1% p.a. return over 21 years without excess market volatility.

So far this year, the Australian equity market has consistently underperformed peer markets. During the March quarter the ASX200 delivered a +4.6% return whereas the average A\$ return from peer developed markets (US, UK, Europe and Canada) was +7.6%. We believe that Australia's relatively slow roll-out of COVID vaccines has been one of the contributing factor to the underperformance. To date Australia has vaccinated just 2.3% of its citizens. The US, UK, Europe and Canada have vaccinated 45%, 51%, 19% and 15% of their respective citizens. It is worth noting however, that Australia's initial roll-out of foreign produced vaccines was expected to be slow (80k p/w). However, the production of the Australian made vaccine has now ramped up and the roll-out will dramatically improve over the coming weeks.

Another factor contributing to the underperformance of the Australian equity market is the removal of the \$90 billion JobKeeper subsidy on March 31. Australian Treasury estimate that between 100,000 and 150,000 JobKeeper recipients may lose employment at the completion of the program. Hence, we are mindful that indicators from Australia's employment market will be volatile over the next quarter. The RBA will not be lifting rates in the foreseeable future so we feel that the Australian 10 year bond yield at 1.85% is probably getting too high relative to the 0.10% cash rate.

The best performing holdings for the Fund this month were Macquarie Group (MQG), Pental Group (PDL) and Seven Group Holdings (SVW) which rose 7%, 9% and 4% respectively. MQG continues to be very well positioned to deliver sector leading earnings growth over the coming year. It's PE is in-line with Commonwealth Bank (CBA) despite an expected ROE that is 20% stronger. MQG is still our preferred financial position. PDL is one of Australia's leading asset managers and is attractively priced at just 15x next years' earnings. A number of PDL's funds are approaching high water marks so we envisage a more consistent stream of performance fees over the years ahead. SVW is advantageously positioned to prosper from increased levels mining production, infrastructure investment, and building and construction activity.

Fund Characteristics

| | |
|--------------------|---|
| FUM | AUD \$19m |
| 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 | | | | 1.90 | 2.00 | 9.51 | -3.92 | -2.58 | 5.57 | -3.95 | -1.93 | 2.44 | 8.53 | 15.98 | 51.97% | -12.83% | |
| 2000/01 | 13.14 | 6.79 | -3.07 | 0.14 | 4.50 | 0.91 | 4.53 | -2.88 | -11.90 | 13.03 | 5.25 | 0.47 | 32.19 | 8.85 | 27.72% | -16.68% | |
| 2001/02 | -7.85 | -4.82 | -5.35 | 8.66 | 11.51 | 1.84 | 3.93 | 3.54 | -0.16 | -0.36 | 2.66 | -2.71 | 9.54 | -4.50 | 32.13% | -14.57% | |
| 2002/03 | -6.33 | 3.62 | -0.93 | 1.69 | 1.62 | 4.28 | 1.80 | 1.23 | -0.17 | 2.20 | 0.66 | 1.45 | 11.23 | -1.08 | 51.58% | -14.43% | |
| 2003/04 | 3.72 | 6.97 | 1.59 | 2.45 | -1.19 | 2.93 | 0.44 | 1.39 | 0.54 | -0.07 | 0.32 | 2.16 | 23.16 | 22.37 | 36.03% | -3.74% | |
| 2004/05 | 3.07 | 1.39 | 4.18 | 4.46 | 3.68 | 1.38 | 3.83 | 0.32 | -2.04 | -3.41 | 0.79 | 3.22 | 22.57 | 24.75 | 26.86% | -5.18% | |
| 2005/06 | 1.34 | 0.74 | 3.91 | -3.22 | 3.74 | 1.40 | 1.72 | 0.52 | 3.51 | 1.91 | -0.43 | 2.03 | 18.33 | 24.20 | 27.57% | -3.95% | |
| 2006/07 | -0.88 | 2.28 | 1.53 | 5.78 | 0.42 | 2.98 | 1.03 | 0.51 | 3.03 | 2.67 | 3.46 | 0.16 | 25.35 | 30.28 | 32.21% | -4.92% | |
| 2007/08 | -0.61 | -1.48 | 2.56 | 0.91 | -1.90 | -0.29 | -9.27 | -0.39 | -1.46 | 1.58 | 0.91 | -2.27 | -11.56 | -12.12 | 51.05% | -8.23% | |
| 2008/09 | 0.26 | 2.84 | -5.78 | -5.61 | -3.76 | 3.37 | -1.65 | -1.16 | 5.75 | 4.72 | 0.91 | 2.86 | 1.94 | -22.15 | 46.55% | -3.37% | |
| 2009/10 | 7.17 | 7.41 | 5.13 | -0.98 | 1.75 | 3.51 | -4.00 | -0.23 | 3.46 | -0.58 | -5.67 | -0.85 | 16.30 | 13.78 | 10.30% | -2.62% | |
| 2010/11 | 2.10 | -1.10 | 4.72 | 3.27 | 0.07 | 3.41 | -0.49 | 1.92 | 0.00 | -1.59 | -1.73 | -0.77 | 9.99 | 12.17 | 14.13% | -3.98% | |
| 2011/12 | -3.41 | -0.59 | -4.76 | 3.69 | -2.82 | -2.13 | 3.08 | 1.91 | 1.94 | -0.20 | -5.47 | -0.37 | -9.22 | -7.04 | 23.28% | -3.47% | |
| 2012/13 | 3.27 | 2.95 | 1.21 | 3.61 | 0.07 | 3.07 | 4.47 | 4.47 | 0.32 | 4.54 | -2.84 | -1.39 | 26.09 | 20.67 | 7.24% | -0.19% | |
| 2013/14 | 3.27 | 1.31 | 4.56 | 2.53 | -0.31 | 0.08 | -2.33 | 2.23 | 1.70 | -0.13 | -0.01 | -0.87 | 12.49 | 17.64 | 11.71% | -0.02% | |
| 2014/15 | 2.83 | 1.60 | -2.02 | 1.99 | -0.83 | -0.72 | 3.46 | 6.25 | 0.40 | -0.35 | 1.17 | -2.97 | 10.98 | 5.67 | 18.55% | -0.34% | |
| 2015/16 | 1.61 | -4.14 | -2.72 | 3.42 | -0.62 | -1.70 | -3.79 | -1.43 | 4.39 | 3.08 | 2.25 | -3.08 | -3.16 | 2.01 | 19.81% | -0.29% | |
| 2016/17 | 5.14 | 1.29 | 1.25 | -1.40 | -0.03 | 2.94 | 0.23 | -1.56 | 1.00 | -0.07 | 0.07 | -0.02 | 8.99 | 13.12 | 16.66% | -1.52% | |
| 2017/18 | 1.00 | 0.26 | 0.50 | 2.87 | 1.80 | 3.25 | 0.79 | 0.73 | -2.72 | 1.74 | 0.68 | 1.58 | 13.08 | 13.73 | 21.63% | -3.71% | |
| 2018/19 | 0.39 | -1.40 | 0.11 | -7.18 | -2.45 | -1.17 | 0.06 | 2.43 | 0.17 | 1.41 | 0.34 | -0.29 | -7.63 | 11.04 | 39.30% | -3.30% | |
| 2019/20 | 2.23 | -4.63 | 3.59 | -0.99 | 3.96 | 2.13 | 2.74 | -9.38 | -26.24 | 10.83 | 5.72 | 2.17 | -12.70 | -7.21 | 13.58% | -1.65% | |
| 2020/21 | 3.13 | 5.12 | -3.93 | 1.68 | 13.34 | 2.36 | -1.03 | 3.98 | 1.03 | | | | 27.73 | 19.86 | 2.50% | -0.12% | |
| | | | | | | | | | | | | | Incept. | 692.77 | 481.31 | | |
| | | | | | | | | | | | | | Incept. | 10.11%pa | 8.53%pa | 26.47% | -4.96% |

(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.