

K2 Australian Fund

30 September 2023

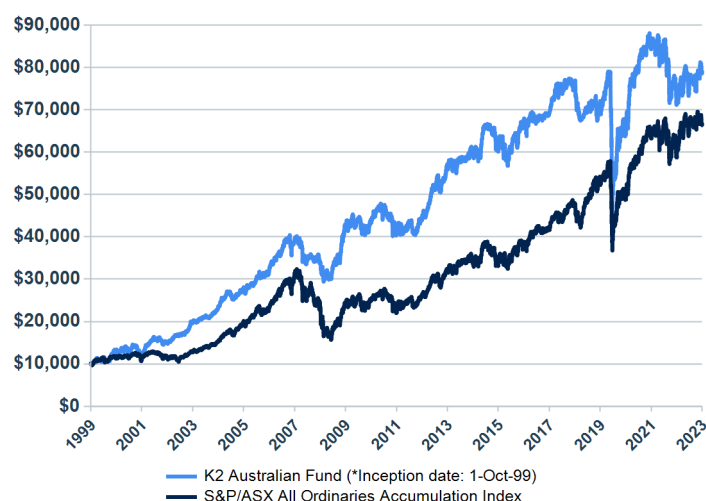


The K2 Australian Fund is an Absolute Return equities fund. The fund is index-unaware, aiming to produce positive absolute returns over the long term with a capital preservation mindset. The Fund's mandate allows it to actively manage its net market exposure – utilising both cash and shorts to help protect clients' capital.

	1 Month	Unit Price	Inception (%pa)
Performance (Net of Fees)	-1.35%	137.98	9.00%

Refer below detailed performance data matrix

Growth of \$10,000



Top 5 Stock Holdings	Current	Monthly Move
Seven Group Holdings Ltd	11.2%	+1.3%
Macquarie Group Ltd	10.5%	-0.4%
BHP Group Ltd	8.4%	+0.0%
Kina Securities Ltd	7.6%	-0.3%
Woodside Energy Group Ltd	6.7%	+0.0%

Market Capitalisation Coverage	Current	Monthly Move
Large Caps >=AUD\$7.5b	53.4%	+0.4%
Mid Caps >=AUD\$2b < AUD\$7.5b	24.3%	+2.0%
Small Caps < AUD\$2b	20.9%	-2.3%

Month End Exposures	Current	Monthly Move
Communication Services	4.0%	-0.1%
Consumer	6.9%	-0.1%
Energy	9.3%	+0.3%
Financials/Real Estate	35.9%	+4.8%
Health Care	6.8%	+3.1%
Industrials	16.6%	-1.3%
Materials	19.0%	-6.6%
Number of Positions	24	-1
Gross Equity Exposure	98.5%	+0.2%
Cash Weighting	1.5%	-0.2%
Net Equity Exposure	98.5%	+0.2%

Commentary

The K2 Australian Fund returned -1.35% for the month.

During the month the Australian Government released its White Paper on Jobs and Opportunities. The goal is to create more employment prospects for more people in more places. However, to our mind, the more immediate challenge is addressing the erosion in productivity. Over the past year, unit labour cost growth has accelerated whereas the growth in earnings per hour worked has slowed. As a result, the measure of labour productivity has declined by 4% over the year and is now back at levels last seen in 2015. So how does Australia pivot to producing more whilst using less? Rebalancing the labour market would surely help. In recent times, a number of bottlenecks have caused labour demand to outstrip supply. However, there are some signs that labour demand is starting to taper. The most recent SEEK Employment report showed that the volume of job advertisements were 20% lower than last year. In addition, the last ABS release revealed that the number of job vacancies were 15% below a year ago. There are also signs that labour supply is rising. The number of underemployed Australians has grown by 14% over the past year. It seems to us that the labour market rebalance is well under way and hence we would expect to see less interest rate hysteria in the future.

Towards the end of the month, the Fund established a position in Resmed (RMD). RMD produces Continuous Positive Airway Pressure (CPAP) devices for the treatment of Obstructive Sleep Apnea (OSA) and other respiratory conditions. Typically these respiratory conditions can be associated with obesity, age, gender or cranial facial problems. Hence, when Eli Lilly and Novo Nordisk announced that their Type 2 Diabetes (GLP-1) drugs were contributing to weight loss as well as reducing the risk of heart attacks, RMD's share price subsequently fell by 40% in just eight weeks. Clearly the market is concerned about the impact that these drugs will have on the demand for CPAP products. However, the cost of these GLP-1 drugs currently range from US\$900-\$1500/mth. As a result, a standard RMD CPAP device is competitive at an outright price of less than US\$1,000. In addition, these GLP-1 drugs have exhibited side effects such as nausea, diarrhea, vomiting, constipation and abdominal pain. The global market of OSA is thought to be close to a billion people, so if the type 2 Diabetes drugs impact the market by 10-15%, there is still an enormous opportunity for RMD. A ten PE point de-rating in RMD looks like an over-reaction to us.

Fund Characteristics

Portfolio Managers	Campbell Neal, David Poppenbeek and Bill Laister
Strategy	Australian and New Zealand Equities
Objectives	To deliver consistent 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	25 to 50
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
Investment Horizon	5 Years
Style Bias	Growth At a Reasonable Price
Market Capitalisation Bias	>\$7.5 billion

George Boubouras
Head of Research
research@k2am.com.au
03 9691 6111

Marcela Tirado
Client Services
invest@k2am.com.au
03 9691 6111

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	4.35	1.05	1.01	36.05	30.24	2.29%	-0.18%	
2021/22	0.49	2.58	-1.35	-0.48	-1.43	2.58	-5.82	2.00	3.79	-1.70	-3.68	-10.94	-13.98	-7.44	1.14%	-0.19%	
2022/23	4.88	0.89	-6.77	2.47	5.05	-3.51	6.95	-2.66	-1.46	1.38	-1.94	-0.37	4.10	14.75	4.10%	-0.68%	
2023/24	3.82	2.11	-1.35										4.58	-0.66	-3.28%	0.00%	
													Incept.	690.81	566.46		
													Incept.	9.00%pa	8.22%pa	23.36%	-4.40%

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

DISCLAIMER: The K2 Australia Absolute Return Fund is issued by K2 Asset Management Limited (K2) ABN 95 085 445 094, AFS Licence No 244393, a wholly owned subsidiary of K2 Asset Management Holdings Limited. The information contained in this document is produced in good faith and 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. The information provided in this document is current at the time of the preparation and K2 is not obliged to update the information. 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. Please note that past performance is not a reliable indicator of future performance. Any advice and information contained in this document is general only and has been prepared without taking into account any particular circumstances and needs of any party. Before acting on any advice or information in this document you should assess and seek advice on whether it is appropriate for your needs, financial situation, and investment objectives. Investment decisions should not be made upon the basis of its past performance or distribution rate, or any rating given by a ratings agency, since each of these can vary. In addition, ratings need to be understood in the context of the full report issued by the ratings agency themselves. A product disclosure statement or information memorandum for the funds referred to in this document can be obtained at www.k2am.com or by contacting K2. You should consider the product disclosure statement before making a decision to acquire an interest in the fund.

©2023 Morningstar, Inc. All Rights Reserved. The information contained herein: (1) is proprietary to Morningstar and/or its content providers; (2) may not be copied or distributed; and (3) is not warranted to be accurate, complete, or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information. Past performance is no guarantee of future results.