



K2 co-founder Campbell Neal ... 'LICs are not the best platform for the investor.' PHOTO: LOUISE KENNERLEY

# K2 sets target for fund, takes swipe at LICs

## Exclusive

Joyce Moullakis

K2 Asset Management is tipping its listed exchange-traded managed fund will eventually oversee as much as \$400 million, as it staunchly criticises the structure of listed investment companies as not a good outcome for end investors.

The KII Global Equities Fund is slated to list on the Australian Securities Exchange on July 20, and follows in the footsteps of Magellan Financial Group's global exchange-traded fund which joined the bourse in March.

Co-founder of K2 Asset Management Campbell Neal told Fairfax Media he was targeting \$200 million to \$400 million for the new listed vehicle, as he noted the firm was mindful of not seeing a trade-off between a ballooning in fund size and performance.

"The future is these types of products that put the accountability back onto the manager, because if I don't do a good job you will redeem," he said.

The exchange-traded managed fund structure allows investors a lot of liquidity as the fund is a market-maker and can create and redeem units. The trust structure differs to the more com-

monly used listed investment company (LIC) structure because it is open ended. LICs typically raise a set amount of capital through an initial public offering via a broker.

K2 is seeking to draw on its track record in the global equities space. Its existing unlisted K2 Global High Alpha Fund has printed 25 per cent a year average returns over the five years since it began in 2009.

Mr Neal, who is also the portfolio manager of KII, said while he had initially considered starting an LIC, he considered them outdated, claiming the trust structure was a better outcome for investors.

"I think listed investment companies are like button-up boots and cranking cars ... They are just not the best platform or medium for the investor," he said.

"LICs are old school. It [exchange traded managed fund] is the digital camera and LICs are like Kodak film."

His attack on LICs stems largely from the fact that managers pay out large fees to brokers on listing, weighing on net asset value (NAV). He said the lion's share of LICs were trading at less than NAV and were also hamstrung by limited liquidity and information flowing to investors.

But LICs have proven a popular structure in the past 12 months and the pace of new offerings for global equities doesn't seem to be abating. Kerr Neilson's Platinum Asset Management is in the process of kicking off an Asian-focused LIC, while Ellerston Capital is another big name also considering one.

KII has already garnered the support of the head of a large professional services firm and several BRW rich listers. But some investors may be deterred by the fee structure.

The listed fund will have a 2.05 per cent investment management fee, 0.06 per cent responsible entity fee and a performance fee of 20.5 per cent for amounts above a set "high water mark" NAV. K2's total funds under management stood at \$852.2 million as at July 1, down from \$858.2 million a year earlier. The dip related to fund outflows from union-based superannuation funds.

Mr Neal said while the new fund would also be able to conduct short-selling, it would be closely monitored.

"We can go quickly back to cash if we see a storm coming," he said of possible ructions or severe market downturns.

The listed fund is hoping to attract the likes of retail investors and self-managed super funds.