

# K2 Asian Fund

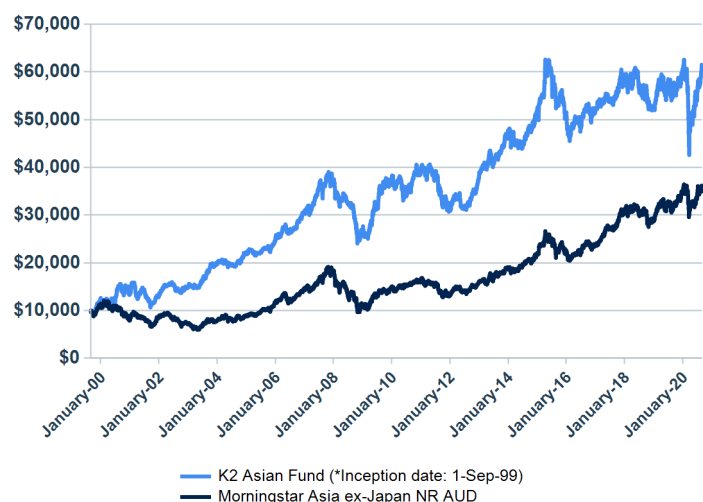
## 31 August 2020



The K2 Asian 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)	6.2%	9.0%	1-Sep-1999
Average Net Exposure	97.2%	75.3%	

### Growth of \$10,000



Top 5 Stock Holdings	Current	Monthly Move
Alibaba Group Holding Ltd	10.0%	-0.1%
Tencent Holdings Ltd	6.9%	-0.3%
Techtronic Industries Co Ltd	5.2%	+0.8%
Seven Group Holdings Ltd	4.9%	+0.5%
Shenzhou International Group	4.8%	+1.1%

Month End Exposures	Current	Monthly Move
Communication Services	9.5%	-0.3%
Consumer	28.8%	-3.3%
Financials	18.3%	+1.3%
Health Care	5.0%	+0.9%
Industrials	16.7%	+2.6%
Information Technology	3.2%	-0.4%
Materials	9.3%	-0.3%
Other	1.3%	+0.0%
Real Estate	3.7%	-0.8%
Utilities	2.1%	+2.1%
SHORTS	-0.5%	-0.5%
Number of Positions	39	0
Gross Equity Exposure	98.4%	+2.5%
Cash Weighting	2.7%	-1.4%
Net Equity Exposure	97.3%	+1.4%
Currency Exposure Hedged of AUD	82.3%	-3.8%

### Commentary

The K2 Asian Fund returned +6.2% for the month of August. The fund has now returned +26% since 31 March significantly outperforming the benchmark return of 10%. A combination of good stock selection, investing cash early in the cycle and accumulating AUD exposure at lower levels have all contributed to the very strong excess return of +16% vs benchmark for investors in just five months.

Asian equity markets extended their post-Covid rally with strength seen broadly throughout the region. Investors were buoyed by highly accommodative fiscal and monetary policy, improved economic momentum as lockdowns ease and vaccine optimism. A falling USD, having now declined for five consecutive months against a basket of major world currencies, is beneficial to Asia's emerging economies and helped to drive equity markets higher.

Better performing countries included Korea (+3.4%), India (+2.8%), Mainland China (+2.6%) and Hong Kong (+2.4%) while Taiwan (-0.6%) and Thailand (-1.4%) lagged.

The race to The White House has reached the home stretch. Given how delicately poised the outcome appears to be, it would be a genuine surprise if President Trump does anything to escalate tensions with China and subsequently destabilise markets between now and November 3rd. It will however be a very different story after the election. With an enormous number of postal votes expected and the associated legal posturing it is possible that a result might not be declared until well into January. Markets will not appreciate the uncertainty this has the potential to create and Asia will likely be caught in any downdraft.

A significant positive contributor for the month included leading textile manufacturer Shenzhou International. The company reported results that comfortably exceeded expectations as sales to major customers including Adidas and Uniqlo surged. Market share gains and stringent cost controls led to gross margin expansion. Volumes in China turned positive in May and June. Currently trading on an FY2021 forecast PE of 27.3x with 2019-2022 expected EPS growth of 12.7% p.a., Shenzhou remains a core holding for the fund.

The fund ended the month with a net exposure to equities of 97% reflecting our overall unchanged optimistic stance. As central banks continue to expand their balance sheets to fund government deficits while keeping interest rates at historic lows, equities will remain in high demand.

The AUD ended the month up +3.46% versus the USD at 0.7390. The fund is currently 82% hedged to the AUD providing capital protection against a rising AUD.

### Fund Characteristics

FUM	AUD \$11m
Portfolio Managers	Campbell Neal, David Poppenbeek, Josh Kitchen and Tony Sutton
Strategy	Asian (excluding Japan) 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	1.36%
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 Asian 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			-0.6	4.3	9.2	10.8	-4.3	-3.4	4.1	-1.1	0.2	-1.0	18.6	3.6	35.2%	-13.8%
2000/01	19.4	8.3	-5.3	-1.0	-3.2	-2.3	16.5	-2.0	-16.4	5.4	5.4	-2.0	19.2	-17.9	16.2%	-18.5%
2001/02	-9.1	-6.9	-4.9	2.3	10.3	1.1	8.7	4.4	2.4	1.8	1.7	-1.5	8.6	-3.1	35.5%	-12.0%
2002/03	-7.2	0.5	-2.8	3.6	3.6	-0.5	2.4	-0.5	-1.8	0.1	3.7	4.4	4.9	-19.3	41.2%	-13.0%
2003/04	4.4	6.5	4.4	5.2	-0.3	0.9	1.5	0.8	-1.8	-0.7	-0.2	0.0	22.4	25.2	38.0%	-5.3%
2004/05	-1.2	1.3	2.2	0.9	6.8	2.2	1.1	1.3	-3.0	-2.4	2.0	1.0	12.5	15.8	30.2%	-2.6%
2005/06	3.4	0.2	1.9	-3.6	5.2	3.8	5.2	-1.0	5.0	2.3	-3.2	0.2	20.7	29.0	24.4%	-3.9%
2006/07	0.2	2.0	2.4	2.9	3.4	2.7	1.2	0.3	0.6	3.0	5.5	4.0	31.9	29.3	31.1%	-1.4%
2007/08	3.5	-0.2	2.7	4.0	-2.6	-1.2	-8.6	-0.4	-3.7	3.1	-0.1	-3.8	-7.6	-17.9	46.6%	-5.0%
2008/09	-1.6	0.2	-10.8	-10.4	-0.7	5.2	-3.3	-1.4	4.8	8.0	10.3	0.9	-1.2	-1.4	49.5%	-4.0%
2009/10	10.5	-2.6	4.7	0.9	-0.3	3.5	-4.7	0.0	3.8	-0.5	-7.4	-0.5	6.4	18.7	12.0%	-1.7%
2010/11	4.4	-2.1	7.6	2.5	-0.8	2.1	0.5	-1.0	1.7	1.2	-1.8	-2.4	12.1	0.0	12.1%	-2.4%
2011/12	-2.0	-5.4	-9.0	3.7	-6.2	-1.8	4.9	5.1	-0.9	1.2	-6.9	-1.0	-17.8	-9.9	20.1%	-2.1%
2012/13	1.2	0.7	4.9	3.9	2.0	6.0	4.3	2.1	0.0	3.2	2.4	-3.6	30.2	23.3	6.9%	-0.1%
2013/14	2.4	0.1	2.1	3.6	4.9	0.9	-1.6	0.9	-3.7	-0.2	0.4	-2.3	7.4	12.3	8.8%	0.0%
2014/15	5.4	0.5	2.8	1.4	2.5	3.6	4.1	2.2	2.6	7.5	2.4	-4.2	34.9	27.7	12.9%	-0.1%
2015/16	-4.5	-4.5	-1.4	3.4	-4.2	-2.9	-7.2	-1.6	4.0	2.5	0.2	-2.8	-17.8	-8.6	18.7%	0.0%
2016/17	3.7	2.5	1.2	-3.3	1.6	0.2	2.7	-0.6	1.0	2.0	0.9	-2.3	9.9	20.0	20.6%	-0.4%
2017/18	-0.1	2.2	0.5	4.5	1.4	-1.6	1.4	-0.2	-1.3	4.0	-0.2	-4.1	6.5	12.9	18.5%	-1.1%
2018/19	-1.6	1.0	-0.1	-7.3	-1.1	1.6	1.8	5.6	1.3	1.3	-6.1	4.8	0.5	6.1	30.2%	-0.7%
2019/20	0.0	-3.9	1.2	2.0	1.0	4.1	-2.7	-4.3	-13.6	6.4	1.9	4.1	-5.3	3.3	14.0%	-1.2%
2020/21	4.9	6.2											11.4	4.5	3.6%	-0.1%
Incept													506.8	249.6		
Incept													9.0%pa	6.1%pa	23.9%	-4.1%

(1) Morningstar Asia ex-Japan NR AUD

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