

# K2 Australian Fund

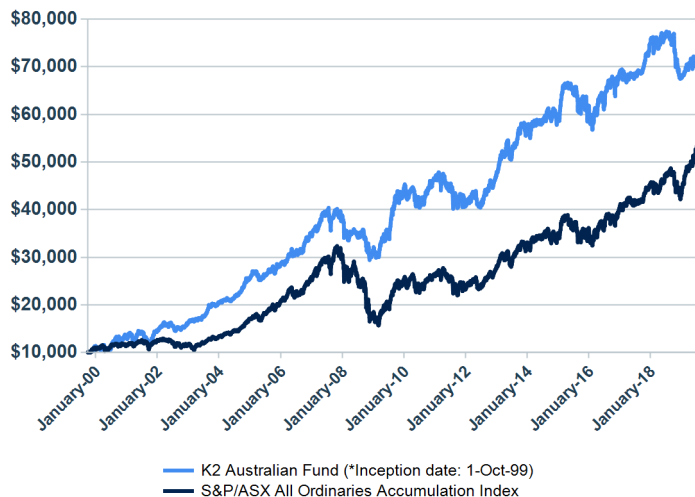
## 31 July 2019



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 | 1 Year | 3 Years (%pa) | 5 Years (%pa) | 10 Years (%pa) | 15 Years (%pa) | Inception (%pa) | Inception Date |
|---------------------------|---------|----------|--------|---------------|---------------|----------------|----------------|-----------------|----------------|
| Performance (Net of Fees) | 2.2%    | 2.3%     | -5.9%  | 3.4%          | 4.0%          | 6.8%           | 8.2%           | 10.5%           | 1-Oct-1999     |
| Average Net Exposure      | 72.0%   | 69.3%    | 59.8%  | 73.6%         | 76.9%         | 81.7%          | 75.5%          | 72.0%           |                |

### Growth of \$10,000



### Commentary

The K2 Australian Fund returned 2.2% for the month of July.

During the month the Reserve Bank of Australia cut rates by 0.25% making it the first back to back decline since 2012. The yield on the Australian 10-year bond has compressed by 1.5% over the past 12 months and is trading at an all-time low yield of just 1.19%. This has created a “search for growth” and as a result, the average PE ratio for Australian Industrial companies has risen to 22x and is now more than 2 standard deviations higher than the long term mean. The All Ordinaries Accumulation Index increased by 3.0% for the month.

The Fund's holdings in Nine Entertainment, JB Hi-Fi and Flight Centre rose on average by more than 10% for the month as investors continue to pursue companies with leverage to an expected elevation in consumer activity. Another positive contributor to Fund performance was Healthia (+35%), a position the Fund has held since it listed in September last year. Healthia operates in the highly fragmented Physiotherapy and Podiatry market with no single operator owning more than 3%. The company has a co-owner clinic model with a self-funded acquisition profile to consolidate the sector and deliver significant long term growth to shareholders. The company is trading on an FY20 PE of 11x and a yield of 4% with significant scope to more than double earnings over the next few years.

| Top 5 Stock Holdings         | Current | Monthly Move |
|------------------------------|---------|--------------|
| Macquarie Group Ltd          | 8.4%    | +1.0%        |
| Westpac Banking Corp         | 7.2%    | +0.6%        |
| Nine Entertainment Co Holdin | 5.3%    | +0.7%        |
| JB Hi-Fi Ltd                 | 4.3%    | +1.6%        |
| BHP Group Ltd                | 4.2%    | +0.5%        |

The Fund's net exposure for the month averaged 72%. We continue to be wary of the contraction in the Australian 10-year bond yield; some investors have ratcheted discount rates lower without making the corresponding adjustment to long-run growth rates. We are diligently looking for well-priced investment opportunities that can deliver realistic levels of growth.

| Month End Exposures    | Current | Monthly Move |
|------------------------|---------|--------------|
| Communication Services | 8.1%    | +1.4%        |
| Consumer               | 13.4%   | +4.0%        |
| Energy                 | 3.0%    | +3.0%        |
| Financials             | 31.8%   | +4.6%        |
| Health Care            | 3.5%    | +0.7%        |
| Industrials            | 6.1%    | +2.3%        |
| Materials              | 12.9%   | +1.1%        |
| Real Estate            | 1.9%    | -1.3%        |
| SHORTS                 | -2.1%   | +0.9%        |
| Number of Positions    | 44      | +4           |
| Gross Equity Exposure  | 83.0%   | +14.9%       |
| Cash Weighting         | 21.3%   | -16.7%       |
| Net Equity Exposure    | 78.7%   | +16.7%       |

### Fund Characteristics

|                    |   |
|--------------------|---|
| FUM                | AUD \$128m  |
| Portfolio Managers | Campbell Neal, David Poppenbeek, Josh Kitchen and Nicholas Leidl  |
| 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                       |

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## 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  |      |      |      |      |      |      |      |       |      |      |      | 2.2     | 3.0               | 28.0%        | -2.9%         |       |
|         |      |      |      |      |      |      |      |      |       |      |      |      | Incept  | 626.8             | 438.1        |               |       |
|         |      |      |      |      |      |      |      |      |       |      |      |      | Incept  | 10.5%pa           | 8.9%pa       | 28.3%         | -5.2% |

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

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