

K2 Australian Fund

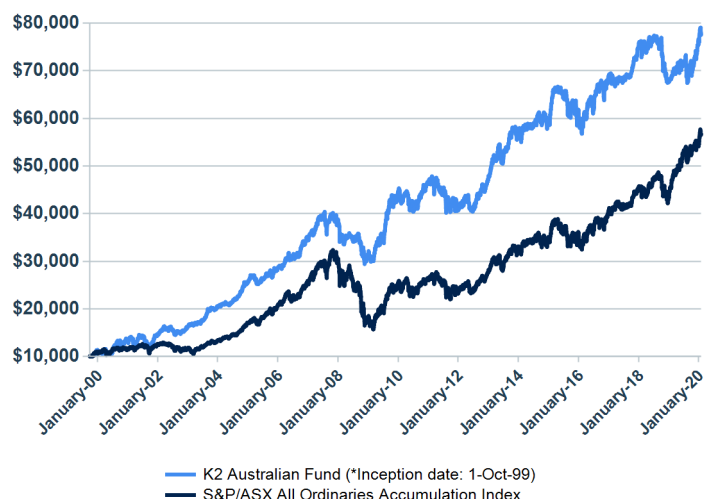
31 January 2020



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)	2.7%	9.1%	13.6%	4.2%	4.6%	6.1%	7.4%	10.6%	1-Oct-1999
Average Net Exposure	88.1%	87.5%	74.4%	72.2%	76.4%	81.4%	75.6%	72.3%	

Growth of \$10,000



Commentary

The K2 Australian Fund returned 2.7% for January.

The Australian economy will need to contend with some challenging conditions during the first quarter of 2020. The dreadful bushfires throughout eastern Australia led to more than 5,400 lodged damage claims with insurers IAG and Suncorp and will undoubtedly result in subdued consumer activity in January. In addition, the coronavirus outbreak could lead to a meaningful drawdown in global activity. China has dramatically restricted tourism movements and most global airlines have suspended flights to the region. Estimates for global nominal GDP growth have already declined by 0.2% this month. Bond yields around the world subsequently dropped by 0.3%.

The Fund's best performer was Medical Developments (MVP) which rose 14% for the month. MVP's market capitalisation has now risen to \$700m and as a result, the potential investor universe is expanding. The Fund's holdings in Macquarie Group (MQG) and Bendigo Bank (BEN) also performed well for the month both rising more than 5%. Both MQG and BEN are growing their Australian mortgage books more rapidly than peers and are well positioned to continue to win market share during the year. The worst performing holding for the Fund was Treasury Wine Estates (TWE) which fell 20% for the month. TWE pre-released 1H2020 results and revised full year growth expectations down for FY2020 from 15-20% EBIT growth to 5-10% EBIT growth on the back of a significant deterioration in the US operating environment. The Fund's holdings in consumer facing companies like Webjet, Super Retail Group and HelloWorld all declined on the expectation that retail sales would deteriorate over the months ahead.

The Fund's net exposure for the month averaged 88.1%; long and short exposure averaged 91.1% and 3.1% respectively. Equity prices continue to outperform earnings and as a result, the ASX 200 is trading on a PE of 18.2x next year's profit. For the first time in many years, the ASX 200 and the S&P 500 are trading on the same PE multiple.

Top 5 Stock Holdings	Current	Monthly Move
Macquarie Group Ltd	9.5%	+1.4%
BHP Group Ltd	6.9%	-0.4%
RIO Tinto Ltd	6.2%	+0.0%
Seven Group Holdings Ltd	5.5%	+0.3%
Medical Developments International	5.1%	+0.6%

Month End Exposures	Current	Monthly Move
Communication Services	1.0%	-0.3%
Consumer	12.9%	-0.6%
Energy	2.5%	+0.1%
Financials	35.1%	+4.4%
Health Care	13.0%	+1.9%
Industrials	13.0%	+0.8%
Materials	14.9%	-0.1%
SHORTS	-4.7%	-2.6%
Number of Positions	40	+4
Gross Equity Exposure	97.1%	+7.2%
Cash Weighting	12.4%	-1.9%
Net Equity Exposure	87.6%	+1.9%

Fund Characteristics

FUM	AUD \$32m
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

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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	-4.6	3.6	-1.0	4.0	2.1	2.7						9.1	8.4	16.4%	-1.8%	
													Incept	675.6	466.8		
													Incept	10.6%pa	8.9%pa	27.7%	-5.2%

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

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