

K2 Australian Fund

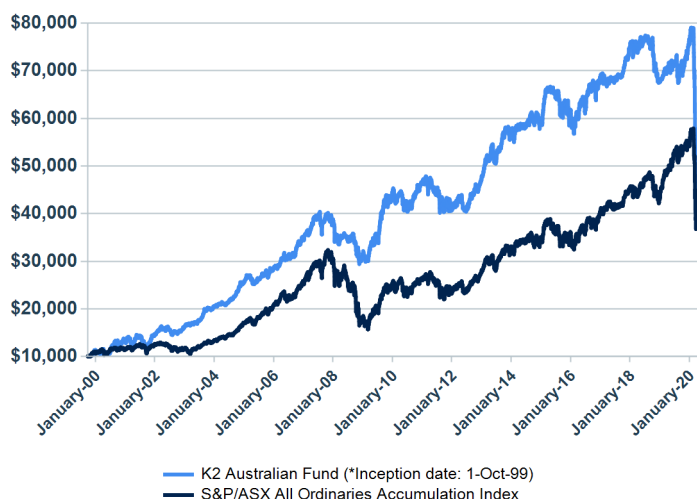
30 April 2020



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)	10.8%	-25.9%	-19.1%	-5.5%	-2.6%	2.7%	5.6%	8.9%	1-Oct-1999
Average Net Exposure	84.1%	86.6%	81.7%	72.5%	76.8%	81.2%	75.9%	72.5%	

Growth of \$10,000



Commentary

The K2 Australian Fund returned 10.83% for the month of April.

Australia is very well positioned to re-emerge from the COVID-19 induced state of hibernation. During the month, the Governor of the Reserve Bank of Australia (RBA) suggested that the total hours worked in Australia would be 20% lower and by mid-year our unemployment rate would most likely hit 10%. Economists now collectively believe that the Australian economy will shrink by 1.4% over the next twelve months. Although near term economic indicators feel like the economy is in a coma, we believe that the foundations for a long, gradual recovery are being set. Australia has successfully slowed the growth of COVID-19 cases; we have seen a minimal increase in the daily infection rate whereas developed economic peers like the US and UK have continued to report large numbers of new cases each day. It is likely that Australia will bring forward the removal of baseline restrictions in May and improved economic activity should follow. Fortunately, monetary policy has been designed to keep the cost of funding low thus allowing economic momentum to build.

The best performing holdings for the Fund were Seven Group Holdings (SVW), Macquarie Group (MQG) and BHP which rose 36%, 20% and 42% respectively for the month. The worst performers for the Fund were short positions in Afterpay Ltd (APT) and ASX Ltd (ASX) which rose 10% and 6% respectively.

The Fund's net exposure for the month averaged 84.1%. The Fund continues to be significantly under-weight the major banks. Expected credit losses associated with the COVID-19 pandemic led ANZ Bank (ANZ), National Australia Bank (NAB) and Westpac (WBC) to take combined impairment charges of \$3.7 billion. ANZ and WBC subsequently deferred their interim dividend whereas NAB reduced theirs by 53%. NAB however raised \$3 billion of new equity to improve its CET-1 ratio to 11.2%.

Top 5 Stock Holdings	Current	Monthly Move
BHP Group Ltd	10.0%	+0.2%
RIO Tinto Ltd	9.3%	-0.5%
Macquarie Group Ltd	8.6%	+0.8%
Seven Group Holdings Ltd	5.7%	+0.7%
Summerset Group Holdings Ltd	5.0%	0.0%

Month End Exposures	Current	Monthly Move
Communication Services	0.7%	-0.1%
Consumer	6.9%	+2.6%
Energy	0.3%	+0.3%
Financials	30.4%	-3.7%
Health Care	7.3%	+0.4%
Industrials	12.9%	+0.7%
Materials	27.4%	+2.7%
Real Estate	4.8%	+3.0%
SHORTS	-3.8%	-2.8%
Number of Positions	38	+6
Gross Equity Exposure	94.6%	+8.8%
Cash Weighting	13.1%	-3.1%
Net Equity Exposure	86.9%	+3.1%

Fund Characteristics

FUM	AUD \$22m
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

George Boubouras
 Head of Research
 03 9691 6191
 invest@k2am.com.au

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	-9.4	-26.2	10.8			-19.2	-13.7	15.5%	-1.9%	
													Incept	474.6	351.2		
													Incept	8.9%pa	7.6%pa	27.7%	-5.2%

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

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