

K2 Australian Fund

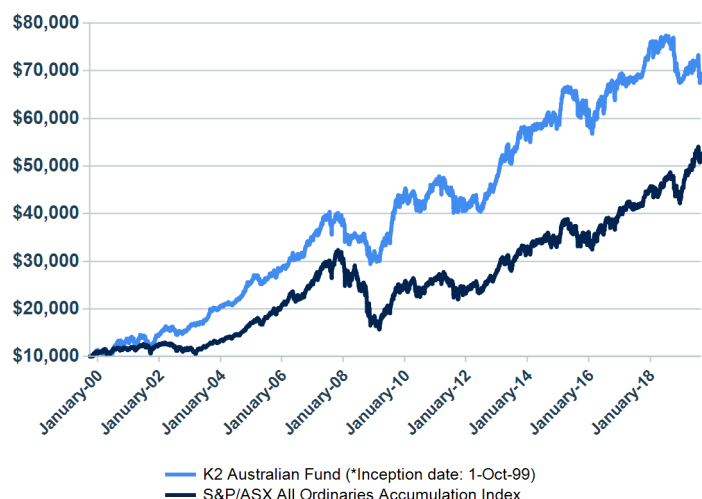
31 August 2019



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)	-4.6%	-2.8%	-9.0%	1.4%	2.7%	5.5%	7.8%	10.2%	1-Oct-1999
Average Net Exposure	79.9%	73.0%	59.6%	73.3%	76.8%	81.6%	75.5%	72.0%	

Growth of \$10,000



Commentary

The K2 Australian Fund returned -4.6% for the month of August.

The June profit reporting season this year was unsurprisingly weak. During the period election jitters and trade war rhetoric certainly impacted consumer and business activity. We noted that during August sell-side analysts downgraded next year's EPS estimate for 58% of the large companies that we analyse. The last time we saw as many downgrades were during the European debt crisis in 2011. The All Ordinaries Accumulation Index fell -2.2% for the month.

The Fund's holdings in James Hardie, Suncorp, and Elanor Investors Group rose on average by more than 10% for the month; all three companies delivered profits that exceeded expectations. Another positive contributor to Fund performance was Auralis (+4%). Auralis is the world's largest aluminium shipbuilder and specialises in high speed, lightweight vessels for military and commercial uses. Auralis operates 5 shipyards, employs over 5,700 staff and has an order book of \$4.9 billion. Auralis delivered a strong FY2019 profit during the month; EBIT rose 42% and net profit jumped 64%. The company has guided to at least 13% growth in EBIT in FY2020. Auralis is trading on an FY20 PE of 21x and has a conservatively positioned balance sheet. The Fund's holdings in companies with a market capitalisation less than \$500m were the largest detractor to performance. The Fund has sold out of 10 illiquid companies so far this year; emerging companies now account for just 5% of the Fund's exposure.

The Fund's net exposure for the month averaged 79.9%; long and short exposure averaged 81.4% and -1.5% respectively. We are of the view that Australian companies are gradually becoming more constructive towards capital expenditure. Macquarie Group's \$1 billion equity raising to fund new opportunities indicates that experienced management teams are finally prepared to invest for growth.

Top 5 Stock Holdings	Current	Monthly Move
Macquarie Group Ltd	9.5%	+1.1%
Westpac Banking Corp	7.3%	+0.1%
Nine Entertainment Co Holdings	4.8%	-0.5%
RIO Tinto Ltd	4.5%	+1.2%
Seven Group Holdings Ltd	4.1%	+0.3%

Month End Exposures	Current	Monthly Move
Communication Services	7.8%	-0.3%
Consumer	12.5%	-0.9%
Energy	3.3%	+0.2%
Financials	35.3%	+3.5%
Health Care	4.7%	+1.2%
Industrials	6.7%	+0.6%
Materials	13.4%	+0.5%
Real Estate	1.9%	-0.1%
SHORTS	-1.1%	+1.1%
Number of Positions	42	-2
Gross Equity Exposure	86.6%	+3.6%
Cash Weighting	15.5%	-5.8%
Net Equity Exposure	84.5%	+5.8%

Fund Characteristics

FUM	AUD \$109m
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											-2.5	0.7	23.9%	-2.2%	
													Incept	593.2	426.2		
													Incept	10.2%pa	8.7%pa	28.1%	-5.2%

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

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