

# K2 Australian Fund

## 31 December 2022

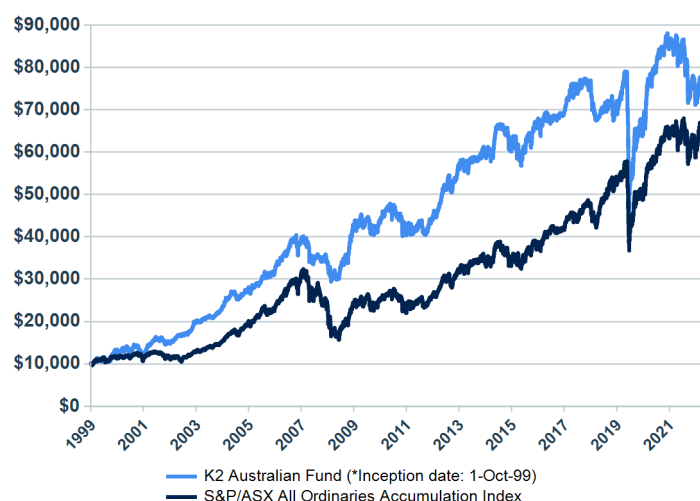


The K2 Australian Fund is an Absolute Return equities fund. The fund is index-unaware, aiming to produce positive absolute returns over the long term with a capital preservation mindset. The Fund's mandate allows it to actively manage its net market exposure – utilising both cash and shorts to help protect clients' capital.

	1 Month	Unit Price	Inception (%pa)
Performance (Net of Fees)	-3.51%	130.11	9.02%

Refer below detailed performance data matrix

### Growth of \$10,000



Top 5 Stock Holdings	Current	Monthly Move
Macquarie Group Ltd	9.1%	-0.1%
Seven Group Holdings Ltd	7.6%	+0.4%
BHP Group Ltd	7.5%	+0.4%
Kina Securities Ltd	6.5%	-0.3%
Woodside Energy Group Ltd	6.4%	+0.0%

Market Capitalisation Coverage	Current	Monthly Move
Large Caps >=AUD\$7.5b	66.9%	+1.5%
Mid Caps >=AUD\$2b < AUD\$7.5b	8.5%	-1.5%
Small Caps < AUD\$2b	24.4%	+0.3%

Month End Exposures	Current	Monthly Move
Communication Services	2.9%	+0.1%
Consumer	9.2%	-0.1%
Energy	8.3%	+0.0%
Financials	34.6%	+0.2%
Health Care	3.4%	-0.9%
Industrials/Real Estate	25.1%	-0.3%
Materials	16.3%	+1.3%
Number of Positions	27	-3
Gross Equity Exposure	99.8%	-0.9%
Cash Weighting	0.2%	-1.5%
Net Equity Exposure	99.8%	+1.5%

### Commentary

The K2 Australian Fund returned -3.51% for the month.

During 2022, COVID related supply chain dislocations blended with Russia's invasion of the Ukraine to create an inflation cocktail that was difficult for the market to digest. Risk free rates and risk premiums concurrently increased resulting in lower valuation metrics for most asset classes. As we move into 2023 the inflation cocktail is starting to lose some of its potency. Supply chain bottlenecks are gradually decongesting, and this is coinciding with a reduced level of economic activity. Hence, there is less imperative for businesses to carry "just-in-case" levels of surplus inventory. The resulting downward shift in inventory levels should ensure that goods inflation continues to subside. However, the immediate inflation driver that needs to be resolved is the labour market imbalance. Despite tighter financial conditions, labour demand continues to outstrip supply. Subdued economic activity is leading to an increased number of announced job cuts, however, many businesses continue to sight hiring as a meaningful challenge. Ultimately, corporate profitability will diminish, the pace of interest rate hikes should fade, and, in time, an appetite for risk will return.

Over the past 12 months Australian Real Estate Investment Trusts (A-REIT) have delivered a total return of -22%. The weakness in the sector was associated with interest rate hedging programs that exposed cash flow projections to higher financing costs. A number of the large A-REITs are now trading at 25%+ discounts to book value and this could solicit some takeover interest from entities such as private equity funds. Hence, the Fund has recently acquired positions in property fund managers Goodman Group (GMG) and Charter Hall Group (CHC). We have prioritised investments in GMG and CHC since they both have conservative balance sheets, flexible dividend payout ratios and superior growth prospects.

The best performance contributors for the Fund this month were Rio Tinto Holdings (RIO), Maas Group (MGH) and QBE Insurance Group (QBE). Kina Securities (KSL) and Macquarie Group (MQG) were detractors. During the month the Fund bought Charter Hall Group (CHC) and ANZ Bank (ANZ). Bendigo Bank (BEN) was sold.

The median holding for the Fund has a market capitalisation of \$9.8 billion and, using next years' estimates, trades on a PE of 12.1x.

### Fund Characteristics

Portfolio Managers	Campbell Neal, David Poppenbeek and Bill Laister
Strategy	Australian and New Zealand Equities
Objectives	To deliver consistent returns over the investment cycle with a focus on capital protection during periods of market declines
Return Target	S&P/ASX 300 Accumulation Index + 3%pa
Number of Stocks	25 to 50
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
Investment Horizon	5 Years
Style Bias	Growth At a Reasonable Price
Market Capitalisation Bias	>\$7.5 billion

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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				1.90	2.00	9.51	-3.92	-2.58	5.57	-3.95	-1.93	2.44	8.53	15.98	51.97%	-12.83%	
2000/01	13.14	6.79	-3.07	0.14	4.50	0.91	4.53	-2.88	-11.90	13.03	5.25	0.47	32.19	8.85	27.72%	-16.68%	
2001/02	-7.85	-4.82	-5.35	8.66	11.51	1.84	3.93	3.54	-0.16	-0.36	2.66	-2.71	9.54	-4.50	32.13%	-14.57%	
2002/03	-6.33	3.62	-0.93	1.69	1.62	4.28	1.80	1.23	-0.17	2.20	0.66	1.45	11.23	-1.08	51.58%	-14.43%	
2003/04	3.72	6.97	1.59	2.45	-1.19	2.93	0.44	1.39	0.54	-0.07	0.32	2.16	23.16	22.37	36.03%	-3.74%	
2004/05	3.07	1.39	4.18	4.46	3.68	1.38	3.83	0.32	-2.04	-3.41	0.79	3.22	22.57	24.75	26.86%	-5.18%	
2005/06	1.34	0.74	3.91	-3.22	3.74	1.40	1.72	0.52	3.51	1.91	-0.43	2.03	18.33	24.20	27.57%	-3.95%	
2006/07	-0.88	2.28	1.53	5.78	0.42	2.98	1.03	0.51	3.03	2.67	3.46	0.16	25.35	30.28	32.21%	-4.92%	
2007/08	-0.61	-1.48	2.56	0.91	-1.90	-0.29	-9.27	-0.39	-1.46	1.58	0.91	-2.27	-11.56	-12.12	51.05%	-8.23%	
2008/09	0.26	2.84	-5.78	-5.61	-3.76	3.37	-1.65	-1.16	5.75	4.72	0.91	2.86	1.94	-22.15	46.55%	-3.37%	
2009/10	7.17	7.41	5.13	-0.98	1.75	3.51	-4.00	-0.23	3.46	-0.58	-5.67	-0.85	16.30	13.78	10.30%	-2.62%	
2010/11	2.10	-1.10	4.72	3.27	0.07	3.41	-0.49	1.92	0.00	-1.59	-1.73	-0.77	9.99	12.17	14.13%	-3.98%	
2011/12	-3.41	-0.59	-4.76	3.69	-2.82	-2.13	3.08	1.91	1.94	-0.20	-5.47	-0.37	-9.22	-7.04	23.28%	-3.47%	
2012/13	3.27	2.95	1.21	3.61	0.07	3.07	4.47	4.47	0.32	4.54	-2.84	-1.39	26.09	20.67	7.24%	-0.19%	
2013/14	3.27	1.31	4.56	2.53	-0.31	0.08	-2.33	2.23	1.70	-0.13	-0.01	-0.87	12.49	17.64	11.71%	-0.02%	
2014/15	2.83	1.60	-2.02	1.99	-0.83	-0.72	3.46	6.25	0.40	-0.35	1.17	-2.97	10.98	5.67	18.55%	-0.34%	
2015/16	1.61	-4.14	-2.72	3.42	-0.62	-1.70	-3.79	-1.43	4.39	3.08	2.25	-3.08	-3.16	2.01	19.81%	-0.29%	
2016/17	5.14	1.29	1.25	-1.40	-0.03	2.94	0.23	-1.56	1.00	-0.07	0.07	-0.02	8.99	13.12	16.66%	-1.52%	
2017/18	1.00	0.26	0.50	2.87	1.80	3.25	0.79	0.73	-2.72	1.74	0.68	1.58	13.08	13.73	21.63%	-3.71%	
2018/19	0.39	-1.40	0.11	-7.18	-2.45	-1.17	0.06	2.43	0.17	1.41	0.34	-0.29	-7.63	11.04	39.30%	-3.30%	
2019/20	2.23	-4.63	3.59	-0.99	3.96	2.13	2.74	-9.38	-26.24	10.83	5.72	2.17	-12.70	-7.21	13.58%	-1.65%	
2020/21	3.13	5.12	-3.93	1.68	13.34	2.36	-1.03	3.98	1.03	4.35	1.05	1.01	36.05	30.24	2.29%	-0.18%	
2021/22	0.49	2.58	-1.35	-0.48	-1.43	2.58	-5.82	2.00	3.79	-1.70	-3.68	-10.94	-13.98	-7.44	1.14%	-0.19%	
2022/23	4.88	0.89	-6.77	2.47	5.05	-3.51							2.47	9.65	4.62%	-0.40%	
													Incept.	644.31	541.05		
													Incept.	9.02%pa	8.32%pa	24.50%	-4.57%

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

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