

K2 Australian Fund

28 February 2023

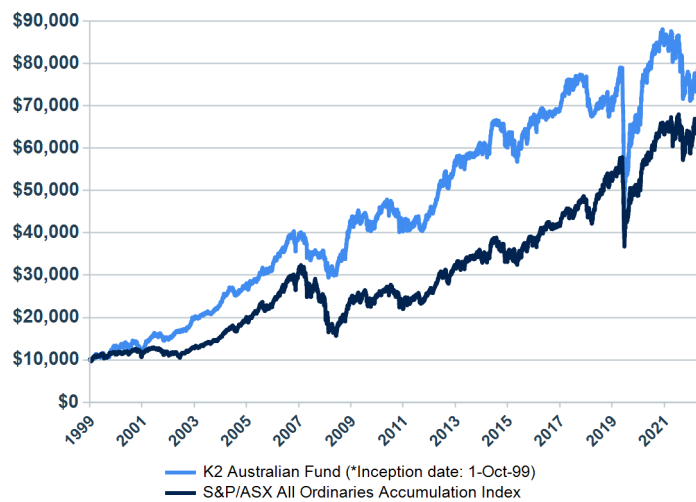


The K2 Australian Fund is an Absolute Return equities fund. The fund is index-unaware, aiming to produce positive absolute returns over the long term with a capital preservation mindset. The Fund's mandate allows it to actively manage its net market exposure – utilising both cash and shorts to help protect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

	1 Month	Unit Price	Inception (%pa)
Performance (Net of Fees)	-2.66%	135.45	9.14%

Refer below detailed performance data matrix

Growth of \$10,000



Top 5 Stock Holdings	Current	Monthly Move
Macquarie Group Ltd	10.2%	+0.5%
Seven Group Holdings Ltd	8.7%	+1.0%
BHP Group Ltd	7.4%	-0.4%
Kina Securities Ltd	6.6%	+0.5%
Woodside Energy Group Ltd	6.4%	+0.2%

Market Capitalisation Coverage	Current	Monthly Move
Large Caps >=AUD\$7.5b	58.6%	-5.6%
Mid Caps >=AUD\$2b < AUD\$7.5b	10.5%	+1.5%
Small Caps < AUD\$2b	24.4%	+0.4%

Month End Exposures	Current	Monthly Move
Communication Services	2.8%	-0.2%
Consumer	7.2%	-0.3%
Energy	8.4%	+0.3%
Financials	29.6%	-3.1%
Health Care	6.3%	+2.7%
Industrials/Real Estate	21.2%	-1.8%
Materials	18.0%	+1.0%
SHORTS	-2.7%	-1.3%
Number of Positions	28	0
Gross Equity Exposure	96.3%	-2.3%
Cash Weighting	9.2%	+5.0%
Net Equity Exposure	90.8%	-5.0%

Commentary

The K2 Australian Fund returned -2.66% for the month.

During the month, the Governor of the Reserve Bank of Australia (RBA), Philip Lowe, had to make two appearances before government committees. There was active debate around the merits of RBA's meaningfully tighter stance of monetary policy. Governor Lowe continually reiterated the dangers of inflation becoming ingrained in the public's psyche. Lowe also reinforced that the RBA was highly attuned to the fact that 880,000 fixed rate loan facilities, with an average balance of \$400,000, would mature this year. Offsetting this to some degree would be the additional \$300 billion that households had saved since the onset of the pandemic. However, the RBA is concerned that demand side factors continue to play a role in the elevated level of inflation and tighter monetary policy could assist in the rebalancing of the economy.

Australia's December half reporting season was a little disappointing. Nearly half of the companies in the ASX 200 saw downward revisions to next years' EPS projections. However, the magnitude of the downgrades were minor; the median revision was just -0.5%. Some of the key takeaways from the reporting season were the intense competition within the mortgage lending industry, the margin protection strategies of the grocers and petrol retailers, and the costs escalation for the major resource companies. Despite a few headwinds, the valuation metrics for the ASX 200 are still relatively attractive; on next years' projections the PE is 14.4x and the dividend yield is 4.5%. The major resource companies continue to trade on 10x forward earnings whereas the PE of the larger industrials is closer to 17x next years' earnings.

The best performance contributors for the Fund this month were Seven Group (SVW), Kina Securities (KSL) and Charter Hall Group (CHC). Northern Star Resources (NST) and BHP Group (BHP) were performance detractors. During the month the Fund acquired positions in Ryman Healthcare (RYM) and Orica (ORI). The Fund's positions in QBE Insurance (QBE) and CHC were sold.

The median holding of the Fund has a market capitalisation of \$8.9 billion and, using expectations for the year ahead, has a PE of 11.7x (25% lower than the ASX 200), an ROE of 12.9% (20% stronger than the ASX 200) and a dividend yield of 3.8% (20% higher than the ASX 200).

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	6.95	-2.66					6.67	13.81	4.80%	-0.61%	
													Incept.	674.86	565.36		
													Incept.	9.14%pa	8.43%pa	24.50%	-4.58%

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

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