

K2 Australian Fund

31 May 2023

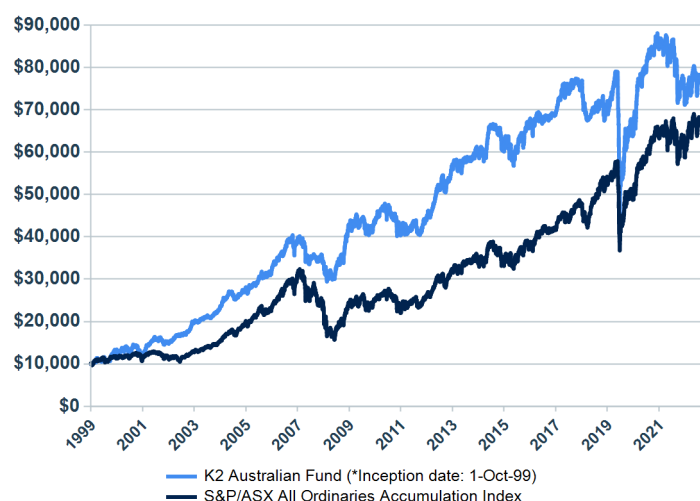


The K2 Australian Fund is an Absolute Return equities fund. The fund is index-unaware, aiming to produce positive absolute returns over the long term with a capital preservation mindset. The Fund's mandate allows it to actively manage its net market exposure – utilising both cash and shorts to help protect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

	1 Month	Unit Price	Inception (%pa)
Performance (Net of Fees)	-1.94%	132.68	8.94%

Refer below detailed performance data matrix

Growth of \$10,000



Commentary

The K2 Australian Fund returned -1.94% for the month.

There are a few indicators that are sending mixed signals about the prospects for Australia. Firstly, global commodity prices have been edging lower. Secondly, China's economic activity appears to be losing momentum. Thirdly, Australia's inflation pulse is not receding as quickly as peers nations. And finally, Australia's key political figures have lost sight of the need to drive productivity and are instead tilting their narrative and actions towards growth in real wages. Higher real wages without productivity gains would no doubt cause the Reserve Bank of Australia (RBA) to become more hawkish at the worst possible time. More than 800,000 Australian mortgages are in the process of swinging from low fixed interest rates to substantially higher variable rates. The RBA has already tightened monetary policy twelve times this cycle. Any further upward movements will obviously have a bearing on household spending. We are also beginning to see some signs that businesses are becoming less courageous with hiring intentions and it seems inevitable that Australia's unemployment rate will rise into 2024. The key question is whether the softening in consumer spending will coincide with an eventual rebalancing of the labour market and allow the RBA to stay on the sidelines.

Top 5 Stock Holdings	Current	Monthly Move
Macquarie Group Ltd	9.9%	-0.1%
Seven Group Holdings Ltd	9.0%	+0.4%
Woodside Energy Group Ltd	7.8%	+0.6%
BHP Group Ltd	7.4%	0.0%
Kina Securities Ltd	6.7%	+0.5%

During the month a number of US listed companies indicated that strong demand for generative artificial intelligence and language models was underpinning future revenue prospects. As a result, share prices of the 100 largest Nasdaq listed companies rose 8% for the month. Australia's Technology sector was also strong rising 4% for the month. It is important to note that the largest 100 Nasdaq listed companies trade on 25x next years' expected earnings. The Australian Technology sector on the other hand trades on more than 40x earnings yet delivers less than half the ROE of the US peers.

Market Capitalisation Coverage	Current	Monthly Move
Large Caps >=AUD\$7.5b	60.7%	+0.9%
Mid Caps >=AUD\$2b < AUD\$7.5b	17.1%	+7.1%
Small Caps < AUD\$2b	24.9%	+1.5%

The best performing holdings for the Fund this month were Ryman Healthcare (RYM), MAAS Group (MGH) and News Corp (NWS). Detractors to performance were Macquarie Group (MQG), BHP Group (BHP) and Nick Scali (NCK). During the month the Fund acquired a new position in Lynas Rare Earths (LYC). The median holding of the Fund has a market capitalisation of \$7.3 billion and, using expectations for the year ahead, has a PE of 13.4x, an ROE of 15.4% and a dividend yield of 3.8%.

Month End Exposures	Current	Monthly Move
Communication Services	3.3%	+0.5%
Consumer	6.8%	-0.8%
Energy	9.6%	+0.6%
Financials/Real Estate	29.5%	+3.6%
Health Care	7.1%	+0.9%
Industrials	17.8%	+0.8%
Materials	28.4%	+3.9%
Number of Positions	31	+7
Gross Equity Exposure	102.6%	+9.5%
Cash Weighting	-2.6%	-9.5%
Net Equity Exposure	102.6%	+9.5%

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	-1.46	1.38	-1.94		4.49	12.57	4.71%	-0.74%
												Incept.	659.01	558.15		
												Incept.	8.94%pa	8.29%pa	24.50%	-4.59%

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

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