

K2 Australian Fund

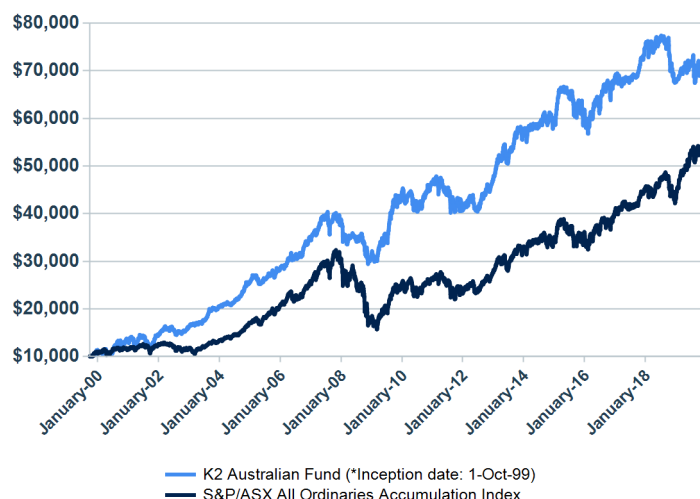
31 October 2019



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)	-1.0%	-2.2%	0.4%	2.3%	3.2%	5.3%	7.4%	10.3%	1-Oct-1999
Average Net Exposure	87.5%	83.6%	61.1%	72.7%	76.6%	81.5%	75.6%	72.1%	

Growth of \$10,000



Commentary

The K2 Australian Fund returned -1.0% for October.

There is a growing body of market commentators that are calling on the Reserve Bank of Australia (RBA) to implement Quantitative Easing. The argument is that, given that Australian banks have retained a portion of the recent reductions in the official cash rate, it follows that lending growth will remain subdued, the inflation target of 2-3% will be missed and the unemployment rate subsequently rises. We are not in this camp. We have confidence that Australia's economy will improve over the coming 12 months and we share RBA Governor Lowe's view that "it is extraordinarily unlikely that we will see negative interest rates in Australia."

The Fund's holdings Seven Group (SVW) and JB Hi-Fi (JBH) performed well for the month rising 8% and 9% respectively. SVW's share price followed the lead from Caterpillar in the US where investors looked through a sombre 3Q result and drove the share price 20% higher on the prospect of better mining activity in 2020. JBH held its AGM during the month and announced that 1Q like-for-like sales in Australia were 3.7% better than last year.

The Fund's holding in Nine Entertainment (NEC) was the largest detractor to performance. During the month competitor, Southern Cross Media (SXL) downgraded profit expectations following weak media markets across its 1Q. As a result, NEC's share price fell 6% for the month. The Fund's holding in ANZ Bank and Westpac Bank declined by about 5% during the month. We reduced the Westpac holding meaningfully during the month ahead of the 1H profit result.

The Fund's net exposure for the month averaged 87.5%; long and short exposure averaged 88.8% and 1.4% respectively. We continue to find attractively priced investment opportunities.

Top 5 Stock Holdings	Current	Monthly Move
Macquarie Group Ltd	11.3%	+1.3%
Seven Group Holdings Ltd	6.5%	+0.9%
BHP Group Ltd	6.4%	+0.3%
RIO Tinto Ltd	5.6%	+0.5%
Summerset Group Holdings Ltd	3.5%	+0.6%

Month End Exposures	Current	Monthly Move
Communication Services	1.3%	-4.4%
Consumer	13.2%	-3.5%
Energy	1.1%	-1.1%
Financials	32.8%	-5.4%
Health Care	9.6%	+2.7%
Industrials	11.1%	+1.6%
Materials	14.7%	-2.6%
SHORTS	-1.0%	0.0%
Number of Positions	36	-3
Gross Equity Exposure	84.7%	-13.7%
Cash Weighting	17.3%	+13.7%
Net Equity Exposure	82.7%	-13.7%

Fund Characteristics

FUM	AUD \$42m
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	3.6	-1.0									0.0	2.4	19.2%	-1.6%	
													Incept	611.0	435.4		
													Incept	10.3%pa	8.7%pa	27.9%	-5.2%

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

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