

# K2 Australian Fund

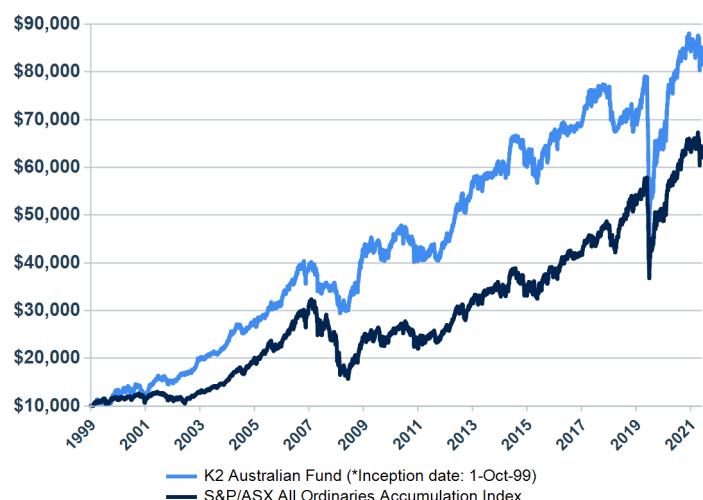
## 28 February 2022



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	3 Months	6 Months	1 Year	5 Years (%pa)	10 Years (%pa)	15 Years (%pa)	Inception (%pa)
Performance (Net of Fees)	2.00%	-1.46%	-4.64%	5.78%	4.25%	6.86%	5.79%	9.90%

### Growth of \$10,000



Top 5 Stock Holdings	Current	Monthly Move
Macquarie Group Ltd	8.7%	-0.2%
Seven Group Holdings Ltd	8.6%	+0.1%
BHP Group Ltd	7.4%	-0.5%
RIO Tinto Ltd	6.6%	+0.3%
National Australia Bank Ltd	6.2%	+1.5%

Month End Exposures	Current	Monthly Move
Communication Services	2.0%	+0.1%
Consumer	14.2%	+4.9%
Financials	34.4%	-2.1%
Health Care	6.9%	-2.4%
Industrials/Real Estate	24.6%	+2.4%
Materials	19.2%	-0.1%
Number of Positions	32	+2
Gross Equity Exposure	101.2%	+2.8%
Cash Weighting	-1.2%	-2.8%
Net Equity Exposure	101.2%	+2.8%

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### Commentary

The K2 Australian Fund returned 2% for the month outperforming the index. Year-to-date (YTD) the Fund is +1.01% ahead of the index. Since inception 22 years ago the Fund has delivered 9.9% p.a. (net, after fees).

Global equity markets were again volatile during the month. The CBOE Volatility Index (VIX) averaged 26 for the month and this compares to the average over the last decade of 16. During the first 2 weeks of the month market participants were squarely focussed on how many interest rate hikes the US Federal Reserve (FED) would implement in 2022. It peaked at 8. However, attention quickly shifted as Russia invaded Ukraine. By month end the consensus view was that the FED would be less hawkish and 5 rates would eventuate in 2022. Russia's hostile actions towards the Ukraine has led to swift responses from many of the NATO members. Wide-ranging sanctions have been actioned and Russia's access to global capital has been severely constrained. The iShares MSCI Russia ETF in USD collapsed by 54% during the month and may create collateral damage. Russia's invasion of the Ukraine is complicated by its position as a key commodity exporter; a barrel of crude oil and the CRB Food Index both rose nearly 10% during the month adding to an already highly complex economic backdrop. War times are extremely difficult phases; human loss is always tragic but market outcomes often defy emotional instincts. Whether we agree with it or not, the fact remains that equity prices have historically rallied on the commencement of war time hostilities. We have already conditioned ourselves to a 1%+ higher weighted average cost of capital (WACC) for Australian equities. Despite this we are still finding a significant number of compelling investment opportunities. The Fund remains optimistically positioned.

The best performing holdings for the Fund this month were South32 (S32), Bendigo and Adelaide Bank (BEN) and BHP Group (BHP) which rose 25%, 12% and 5% respectively. S32 delivered a strong 1H result, underlying EBITDA more than doubled and free cashflow was up 5 fold. S32 has nearly US\$1 billion of cash and capital management continues to feature. BEN's 1H result was pleasing; income rose 3%, costs fell and EPS grew 13%. BEN is well positioned if global interest rates continue to tighten. BHP delivered a 77% lift in EPS in the 1H and ROCE was an outstanding 43%. BHP's profits will continue to be underpinned by the constrained supply of global bulk commodities and metals.

The median holding for the Fund is attractively priced; using consensus forecasts for the year ahead the PE is 13.5x, the ROE is 13.6% and the dividend yield is 4.1%. The market capitalisation of the median holding for the Fund is \$7.5 billion.

### Fund Characteristics

FUM	AUD \$15m
Portfolio Managers	Campbell Neal, David Poppenbeek and Bill Laister
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

## 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					-1.70	-0.60	0.49%	0.00%	
													Incept.	730.06	527.89		
													Incept.	9.90%pa	8.54%pa	25.33%	-4.75%

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

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