

K2 Australian Fund

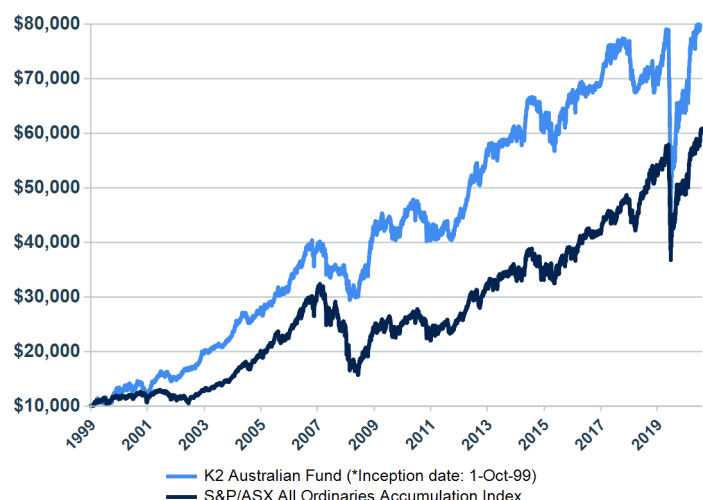
30 April 2021



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)	4.35%	9.62%	25.86%	43.97%	5.59%	5.98%	6.82%	10.29%

Growth of \$10,000



Commentary

The K2 Australian Fund returned +4.35% for the month and has now returned +33.3% this financial year to be +8.7% ahead of the benchmark (BM). The fund has also performed strongly over the past year to be +44% outperforming the BM by +10.1%. Importantly, the fund has delivered an above BM and consistent 10.3% p.a. return over 21 years without excess market volatility.

The Australian economy is expected to expand by more than 4% over the year ahead and the state of the jobs market has been a significant contributor. Australia's unemployment rate has improved by nearly 2% in less than a year and further gains look probable. The removal of the JobKeeper subsidy on March 31 will be a crucial obstacle that the economy will need to contend with however early indicators are promising. ANZ Job Advertisements for April were 4.7% stronger than March and are now almost 8% higher than the pre-COVID peak level.

Additionally, Australia's Treasurer recently stated that more than 93,000 people have come off welfare since the end of March. It could well be that the removal of the JobKeeper subsidy is less debilitating than expected and hence the odds that Australia's unemployment rate heads towards 5% before year end has improved. This is unlikely to alter the Reserve Bank of Australia's commitment to low interest rates. Hence, we believe that equity markets will continue to sustain high valuation metrics and earnings momentum will continue to drive share prices into 2022.

The best performing holdings for the Fund this month were Pental Group (PDL), Medibank Private (MPL) and Rio Tinto (RIO) which rose 13%, 10% and 9% respectively. During the month PDL delivered a strong quarterly update; group inflows were \$900m and the Australian domiciled funds are on track to deliver a better than expected \$16m performance fee. MPL's share price rose following a positive update from competitor NIB Holdings. NIB upgraded earnings guidance following a slower pick-up in deferred Healthcare treatment during COVID. MPL are likely to experience similar favourable conditions. RIO's earnings profile continues to benefit from a robust macro backdrop; strong steel demand drove the iron-ore price up by 8% during the month.

The Fund's net exposure for the month averaged 99.1%. The median holding for the Fund has attractive characteristics; using consensus forecasts for the year ahead the PE is 17.3x, ROE is 12.1%, and the dividend yield is 3.2%. The market capitalisation of the median holding for the Fund is \$6.9 billion and EPS growth is expected to be +11.2% over the next 12 months.

Top 5 Stock Holdings	Current	Monthly Move
Macquarie Group Ltd	9.1%	-0.2%
BHP Group Ltd	8.5%	-0.1%
Medibank Private Ltd	7.3%	+0.5%
Seven Group Holdings Ltd	6.9%	-0.3%
RIO Tinto Ltd	6.8%	+0.3%

Month End Exposures	Current	Monthly Move
Consumer	8.3%	+0.8%
Financials	42.9%	-3.0%
Health Care	8.9%	+2.7%
Industrials	12.7%	+0.3%
Materials	22.1%	-1.2%
Real Estate	2.4%	-1.2%
Number of Positions	32	-2
Gross Equity Exposure	97.2%	-1.6%
Cash Weighting	2.8%	+1.6%
Net Equity Exposure	97.2%	-1.6%

George Boubouras
Head of Research
research@k2am.com.au
03 9691 6111

Marcela Tirado
Client Services
invest@k2am.com.au
03 9691 6111

Fund Characteristics

FUM	AUD \$20m
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

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			33.29	24.56	2.34%	-0.10%	
													Incept.	727.27	504.07		
													Incept.	10.29%pa	8.69%pa	26.46%	-4.96%

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

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