

# K2 Australian Fund

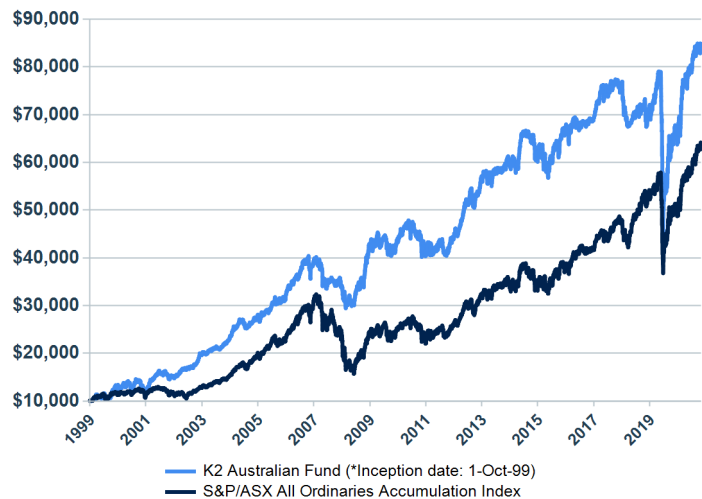
## 31 July 2021



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)	0.49%	2.57%	12.44%	32.57%	5.26%	6.89%	6.95%	10.29%

### Growth of \$10,000



Top 5 Stock Holdings	Current	Monthly Move
Macquarie Group Ltd	9.0%	+0.4%
BHP Group Ltd	8.4%	+0.8%
Seven Group Holdings Ltd	8.1%	+1.2%
Ryman Healthcare Ltd	7.3%	+1.6%
RIO Tinto Ltd	6.9%	+0.6%

Month End Exposures	Current	Monthly Move
Consumer	8.5%	-0.7%
Financials	41.8%	-4.0%
Health Care	9.2%	+1.4%
Industrials/Real Estate	17.6%	+1.8%
Materials	21.4%	+1.1%
Number of Positions	31	0
Gross Equity Exposure	98.5%	-0.3%
Cash Weighting	1.5%	+0.3%
Net Equity Exposure	98.5%	-0.3%

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### Commentary

The K2 Australian Fund returned +0.5% for the month and has now returned +32.6% over the past year to be +2.2% ahead of the benchmark (BM). The fund has delivered a consistent excess return vs BM over the long run over many different economic cycles. Importantly, the fund has delivered an above BM and consistent 10.3% p.a. return over 21 years without excess market volatility.

Companies within the ASX 200 Index have now experienced 11 consecutive monthly EPS upgrades with an average uplift of +3.3%. This has been the strongest upgrade cycle in a decade. The last time we saw a similar phase of positive earnings revisions was after the Global Financial Crisis when, between July 2009 and June 2010, there were 12 consecutive monthly EPS upgrades of +2.8% per month. Unfortunately, during those 12 months, the Reserve Bank of Australia (RBA) lifted interest rates on 6 occasions and the earnings momentum for the ASX 200 faded during the following year. We believe that the RBA will not make the same mistake this cycle. The prevalence of the Delta strain of the COVID-19 virus has spread quickly through certain parts of Australia and a significant section of Sydney has now been put into lock-down. As a result, it is likely that temporary fiscal assistance and monetary latitude will be required. Importantly, during the last week of July more than 600,000 Australian adults received their 2nd vaccine. That weekly vaccination rate should improve over the coming months and hence it is likely that 70% of Australia's adult population will be fully vaccinated before Christmas. This should mean that by 2022 the need for lock downs will diminish. As a result we are optimistic about the prospects for improved economic activity next year and believe that earnings momentum will be sustained.

The best performing holdings for the Fund this month were Seven Group (SVW), BHP Ltd (BHP) and Medibank Private (MPL) which rose 14%, 10% and 5% respectively. During the month SVW's bid for Boral closed with an acceptance level of more than 61%. SVW is now well positioned to extract value from Boral's underperforming asset base. BHP is on track to deliver shareholders a record final fully franked dividend for FY2021 of more than A\$2.50 per share. In a zero bound world that final dividend offers a 6% gross yield and will be cherished by BHP's 528,000 Australian based shareholders. MPL announced that it would return \$100m of COVID-19 claim savings back to customers. This should ensure that MPL continues to improve its competitive position within the Private Health Insurance sector.

### Fund Characteristics

FUM	AUD \$18m
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	1.05	1.01	36.05	30.24	2.29%	-0.18%	
2021/22	0.49												0.49	1.06	1.24%	0.00%	
													Incept.	748.55	538.32		
													Incept.	10.29%pa	8.86%pa	25.37%	-4.75%

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

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