

# K2 Australian Fund

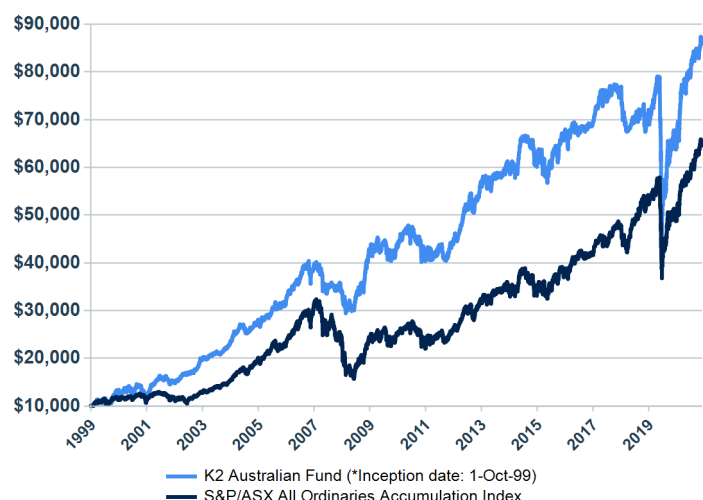
## 31 August 2021



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)	2.58%	4.13%	10.93%	29.37%	5.53%	7.22%	6.98%	10.38%

### Growth of \$10,000



### Commentary

The K2 Australian Fund returned +2.58% for the month and +29.37% over the past year. The fund has delivered a consistent excess return vs BM over the long run and has performed well following the various market corrections since 1999. Importantly, the fund has delivered an above BM and consistent 10.38% p.a. return over 22 years without excess market volatility.

During the month analysts downgraded next years' EPS forecasts for 45% of the companies within the ASX 200 Index. Despite this, the median move for the ASX 200 companies was a 0.3% uplift EPS. It is likely that, given the lockdowns in NSW and Victoria, that September will also see an elevated number of downward earnings revisions. Given that 70% of NSW's adult population has received at least one vaccine dose, it seems increasingly likely that a reopening roadmap can be established. It is likely that more than 70% of NSW's adult population will be fully vaccinated well before Christmas and hence by December there should be very few movement limitations. Unfortunately, Victoria's vaccination rate is more than 13% behind NSW and as a result, Australia's economic activity probably has near-term downside. Australia's GDP forecasts for the year ahead dropped by 0.3% during the month and a similar downgrade should be expected in September. Looking forward, we believe that Australia's economic growth in 2022 will rebound aggressively as households embrace long awaited movement liberations.

Top 5 Stock Holdings	Current	Monthly Move
Ryman Healthcare Ltd	8.7%	+1.4%
Macquarie Group Ltd	7.6%	-1.4%
Seven Group Holdings Ltd	7.4%	-0.7%
BHP Group Ltd	7.1%	-1.2%
RIO Tinto Ltd	5.2%	-1.7%

The best performing holdings for the Fund this month were MA Financial Group (MAF), Ryman Healthcare (RYM) and Downer EDI (DOW) which rose 45%, 17% and 23% respectively. MA Financial delivered a strong 1H result; profits were 93% higher than last year which enabled the company to lift full year profit growth guidance to 20-30%. RYM announced an 82% improvement in its 1Q cash receipts and acquired another site in Melbourne. RYM has rapidly established a strong foothold in Melbourne with a landbank of 12 sites. We envisage that over the next 5 years the value of RYM's Melbourne assets will surpass \$4 billion. DOW delivered a 21% lift in profits for the year. Gearing almost halved and a \$400 million buyback was announced. DOW's \$35 billion of work-in-hand will support growth in the coming years.

Month End Exposures	Current	Monthly Move
Consumer	8.6%	+0.0%
Financials	41.4%	-0.4%
Health Care	10.6%	+1.5%
Industrials/Real Estate	18.9%	+1.3%
Materials	18.8%	-2.6%
Number of Positions	31	0
Gross Equity Exposure	98.3%	-0.2%
Cash Weighting	1.7%	+0.2%
Net Equity Exposure	98.3%	-0.2%

The Fund's net exposure for the month averaged 99.0%. The median holding for the Fund is attractively priced relative to the ASX 200; using consensus forecasts for the year ahead the PE is 20% cheaper, the dividend yield is 13% higher and the ROE is 30% stronger. The market capitalisation of the median holding for the Fund is \$7.7 billion.

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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	2.58											3.08	3.69	1.10%	0.00%	
													Incept.	770.45	554.95		
													Incept.	10.38%pa	8.95%pa	25.36%	-4.75%

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

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