

K2 Australian Fund

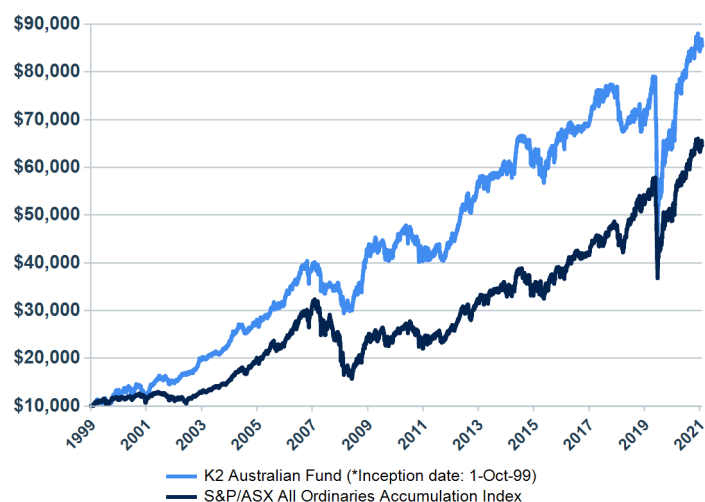
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The K2 Australian Fund is an Absolute Return equities fund. The fund is index-unaware, aiming to produce positive absolute returns over the long term with a capital preservation mindset. The Fund's mandate allows it to actively manage its net market 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)	-0.48%	0.70%	3.30%	30.00%	5.17%	7.16%	6.34%	10.20%

Growth of \$10,000



Top 5 Stock Holdings	Current	Monthly Move
Macquarie Group Ltd	9.2%	+0.7%
Ryman Healthcare Ltd	8.5%	-0.2%
Seven Group Holdings Ltd	8.0%	+0.5%
BHP Group Ltd	6.1%	0.0%
Insurance Australia Group	5.1%	-1.0%

Month End Exposures	Current	Monthly Move
Communication Services	1.2%	+1.2%
Consumer	8.4%	-1.2%
Financials	42.4%	+0.2%
Health Care	11.2%	+0.1%
Industrials/Real Estate	18.2%	-1.4%
Materials	16.6%	-0.1%
Number of Positions	29	-1
Gross Equity Exposure	98.1%	-1.2%
Cash Weighting	1.9%	+1.2%
Net Equity Exposure	98.1%	-1.2%

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Commentary

The K2 Australian Fund returned -0.48% for the month and +30.0% over the past year. The fund has delivered an above BM and consistent +10.20% p.a. return over 22 years without excess market volatility.

Australia is moving into an environment where the majority of the economic pistons will be firing in unison. At present Australia's Household Savings Rate (HSR) is twice as high as the average rate over the past 30 years. An elevated HSR typically co-exists with low levels of confidence and adverse business trading conditions. It is our expectation that Australia's HSR will decline below 5% throughout 2022 and beyond, driving economic growth expectations to around 3%pa. Typically, when trading conditions are robust, confidence is high and growth opportunities are embraced by management teams. We believe that economic leading indicators are an insightful tool for gauging the mood of business leaders. It is our expectation that 2022 will be a year of more economic stability and we anticipate that leading indicators in Australia will stay stronger for longer. The Fund has more than 65% exposure to companies that prosper when economic activity improves.

The Fund is significantly under-weight the 4 major banks. Positions in ANZ Bank (ANZ) and National Australia Bank (NAB) have been increased during the month whereas Commonwealth Bank (CBA) and Westpac Bank (WBC) continue to be avoided. The Fund's banking exposure is more tilted towards the long-standing position in Macquarie Group (MQG). MQG continues to invest with confidence and is pursuing growth in large market segments like Australian mortgages and green energy projects.

The best performing holdings for the Fund this month were Macquarie Group (MQG), MA Financial Group (MAF), and Seven Group Holdings (SVW) which rose 9%, 12% and 4% respectively. MQG delivered a profit of A\$2.04b for the 1H22 which was +107% on pcp. MQG also announced that it would raise \$1.5b of new equity to invest in opportunities where there were considerable risk-adjusted return prospects. MAF lifted FY21 earnings guidance to 30-40% growth and is experiencing strong levels of activity across the group. SVW own 70% of Boral. At Boral's AGM this month the group stated that despite significant lockdowns in NSW and Victoria, 1Q22 revenue was just 1% lower than last year and a good rebound in activity was expected as lockdowns subside.

The Fund's net exposure for the month averaged 99.4%. The median holding for the Fund is attractively priced; using consensus forecasts for the year ahead the PE is 14.3x and the ROE is 14.4%. The market capitalisation of the median holding for the Fund is \$7.9 billion. The Fund's current positioning is best described attractively priced growth.

Fund Characteristics

FUM	AUD \$17m
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	-1.35	-0.48									1.20	2.20	0.97%	0.00%	
													Incept.	754.53	545.54		
													Incept.	10.20%pa	8.81%pa	25.35%	-4.75%

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

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