

# K2 Australian Fund

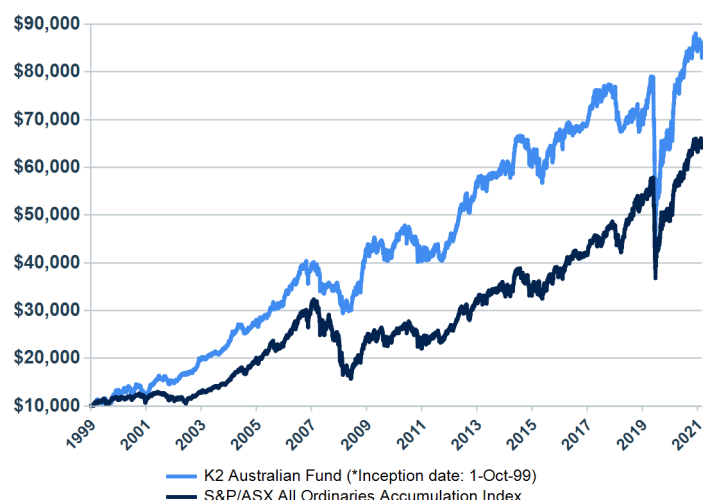
## 30 November 2021



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)	-1.43%	-3.23%	0.76%	13.07%	4.88%	7.31%	6.21%	10.09%

### Growth of \$10,000



Top 5 Stock Holdings	Current	Monthly Move
Macquarie Group Ltd	9.5%	+0.2%
Seven Group Holdings Ltd	8.2%	+0.2%
Ryman Healthcare Ltd	7.5%	-1.0%
BHP Group Ltd	6.8%	+0.7%
RIO Tinto Ltd	5.3%	+0.5%

Month End Exposures	Current	Monthly Move
Communication Services	1.7%	+0.5%
Consumer	8.8%	+0.4%
Financials	40.5%	-2.0%
Health Care	10.4%	-0.8%
Industrials/Real Estate	18.8%	+0.6%
Materials	18.1%	+1.5%
Number of Positions	29	0
Gross Equity Exposure	98.3%	+0.2%
Cash Weighting	1.7%	-0.2%
Net Equity Exposure	98.3%	+0.2%

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### Commentary

The K2 Australian Fund returned -1.43% for the month. The fund has delivered an above benchmark (BM) +10.09% p.a. return over 22 years without excess market volatility (after all fees).

Market volatility rose during the month. The World Health Organisation named omicron as the latest COVID-19 variant of concern and this coincided with a more pragmatic inflation narrative from the US Federal Reserve Bank (FED). It is too early to have an expectation for omicron's transmission and severity, and it is also unclear how effective current vaccines will be. Australia is suitably prepared given that 88% of the adult population are fully vaccinated and 15% of the elderly have already received the vaccine booster. FED Chairman Powell commented that US inflation is more elevated than expected, employment indicators are stronger than anticipated and, despite this, there has been no increase in the supply of labour. As result, the US economy is strengthening so the FED will taper asset purchases sooner than expected. We believe that Australia will follow the US lead. Although Australia's Household Savings Rate (HSR) for the September quarter was 19.8% and was the 5th highest quarterly print in 60 years, we believe that the HSR will decline below 5% throughout 2022 and beyond. Assuming that the omicron variant is not too severe, we anticipate that Australia's economy has the potential to sustain around 3%pa growth over the years ahead. The Fund continues to be optimistically positioned.

The best performing holdings for the Fund this month were BHP Group (BHP), MAAS Group (MGH) and MA Financial Group (MAF) which rose 8%, 10% and 9% respectively. During the month BHP signed a binding share sale agreement for the merger of its oil and gas portfolio with Woodside. MGH's most recent investor update was upbeat; accretive acquisition opportunities are being negotiated, the property pipeline is extensive, and infrastructure spending programs are a tail wind for the company. MAF is experiencing an improved level of volume turnover and as a result the probability of index inclusion next year is improving. Retirement village operator Ryman (RYM) performed poorly for the month falling 14%. RYM delivered an 8% lift in 1H'22 profits but since the COVID-19 outbreak, debt has risen by nearly \$700m. Borrowings will graduate thanks to the pent-up \$2.1b resale bank and accrued deferred management fees.

The Fund's net exposure for the month averaged 100%. The median holding for the Fund is attractively priced; using consensus forecasts for the year ahead the PE is 13.8, the ROE is 13.9% and the dividend yield is 4.3%. The market capitalisation of the median holding for the Fund is \$7.8 billion. The Fund's positioning is best described as quality growth that is attractively priced.

### 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	-1.43								-0.25	1.86	0.85%	0.00%
												Incept.	742.34	543.42		
												Incept.	10.09%pa	8.76%pa	25.35%	-4.75%

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

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