

K2 Australian Fund

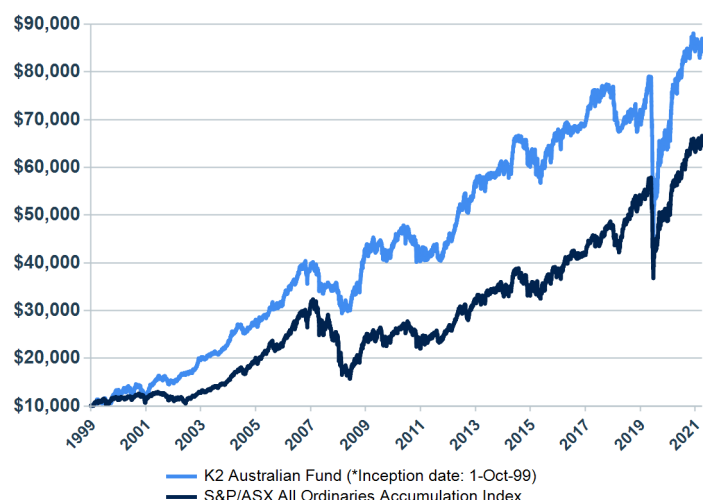
31 December 2021



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%	0.63%	2.33%	13.32%	4.81%	7.82%	6.18%	10.18%

Growth of \$10,000



Top 5 Stock Holdings	Current	Monthly Move
Macquarie Group Ltd	9.3%	-0.2%
Seven Group Holdings Ltd	7.9%	-0.3%
Ryman Healthcare Ltd	7.5%	0.0%
BHP Group Ltd	6.6%	-0.2%
RIO Tinto Ltd	5.2%	0.0%

Month End Exposures	Current	Monthly Move
Communication Services	1.9%	+0.3%
Consumer	8.9%	+0.0%
Financials	40.1%	-0.3%
Health Care	10.7%	+0.3%
Industrials/Real Estate	21.9%	+3.1%
Materials	18.1%	0.0%
Number of Positions	30	+1
Gross Equity Exposure	101.6%	+3.3%
Cash Weighting	-1.6%	-3.3%
Net Equity Exposure	101.6%	+3.3%

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Commentary

The K2 Australian Fund returned 2.58% for the month.

The Reserve Bank of Australia (RBA) is taking a pragmatic approach to monetary and banking policy. The RBA has made it quite clear that it does not target housing prices. In addition, the RBA has consistently stated that there is little chance that it will need to lift interest rates in 2022. Given that Australian households are now sitting on more than \$200 billion of cash, we would expect to see economic activity tilt towards the services sector over the year ahead. This would be jobs accretive and should ensure that the Australian economy delivers more than 4% GDP growth in 2022. We are optimistic about the EPS growth projections for Australian equities over the coming year and share prices should at least match the improved level of profitability. This will be important as we feel that the cheap beta cycle that has been with us for the past decade is starting to fade. We believe that Quantitative Easing (QE) has served its purpose in reviving risk taking activities. However, it has enabled a large congregation of market participants who are ultimately momentum chasers. As QE inevitably transitions towards Quantitative Tightening (QT), prospective investment returns will require a greater appreciation of the interaction between valuation and growth.

The best performing holdings for the Fund this month were Macquarie Group (MQG), Rio Tinto (RIO) and BHP Group (BHP) which rose 5%, 7% and 5% respectively. MQG has been consistently winning share in the highly profitable Australian mortgage market with a non-branch distribution strategy. MQG is fast approaching a 4% share of the mortgage market. RIO and BHP have both benefitted from the 30% recovery in the iron price over the past 6 weeks. Base metal prices have also remained strong for the last 6 months. Accordingly, RIO and BHP should produce solid profits for the December half. We are also seeing some stability in Chinese lead indicators which could bode well for an improvement in commodity demand in 2022.

The median holding for the Fund is attractively priced; using consensus forecasts for the year ahead the PE is 14.5x, the ROE is 13.9% and the dividend yield is 3.9%. The market capitalisation of the median holding for the Fund is \$7.02 billion.

The Fund's positioning can best be described as growth at an attractive price with a tilt towards economically sensitive sectors.

Fund Characteristics

FUM	AUD \$16m
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	2.58							2.33	4.58	0.44%	0.00%
												Incept.	764.10	560.60		
												Incept.	10.18%pa	8.86%pa	25.33%	-4.75%

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

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