

# K2 Australian Fund

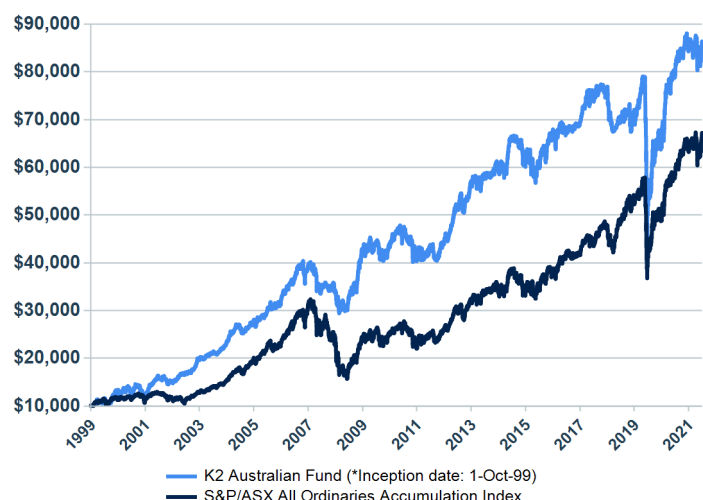
## 31 March 2022



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)	3.79%	-0.30%	0.33%	8.67%	4.82%	7.05%	5.84%	10.04%

### Growth of \$10,000



### Commentary

The K2 Australian Fund returned 3.79% for the month.

During the month Russia continued with its invasion of the Ukraine. Many of the world's nations have condemned Russia's hostilities and meaningful sanctions have been imposed. Russia's ability to export oil, gas and fertilizer has been constricted and this has resulted in elevated commodity prices. Despite this, market participants have embraced risk assets and hence the developed equity markets of the US, Europe, Japan and Australia on average gained 4.4% for the month. Most central banks around the world are now in rate tightening mode. Equity markets have a tendency to look through higher debt costs and typically deliver positive returns during rate hike cycles. In addition, bond yield curves are flattening. Normally this indicates that tougher economic conditions are on the horizon. However, equity markets have also tended to outperform despite recessionary fears.

The Reserve Bank of Australia (RBA) has been vocal that the conflict in the Ukraine will lead to economic uncertainty and therefore a patient approach towards monetary policy should be warranted. Fortunately, higher commodity prices are a net benefit to the Australian economy and listed companies are now experiencing better returns on employed capital. Importantly, within this year's Budget, the Australian Government responded to higher global energy prices by halving the fuel excise tax for the next 6 months. This should help taper inflationary expectations and ensure that household consumption is supported.

The best performing holdings for the Fund this month were Macquarie Group (MQG), BHP Group (BHP) and National Australia Bank (NAB) which rose 12%, 11% and 12% respectively. MQG has proven over the years that its US gas business is highly leveraged to rising prices; a strong full year result in May should follow. BHP's expected profits are still in an upgrade trend; spot commodity prices are well ahead of analyst expectations. Despite this, BHP is only trading on 11x next year's expected profit. NAB has experienced an improvement in its ROE and this should have continued into the 2H of FY2022. NAB will release its interim profit result in May.

The median holding for the Fund is attractively priced; using consensus forecasts for the year ahead the PE is 14.3x, the ROE is 13.6% and the dividend yield is 4.0%. The market capitalisation of the median holding for the Fund is \$8.5 billion. The median holding of the Fund emits 39.9 tonnes of scope 1 & 2 greenhouse gases per million dollars of revenue which is 75% lower than the median of its listed peers.

Top 5 Stock Holdings	Current	Monthly Move
Macquarie Group Ltd	9.6%	+0.8%
BHP Group Ltd	8.0%	+0.6%
RIO Tinto Ltd	6.4%	-0.1%
Seven Group Holdings Ltd	6.2%	-2.4%
Medibank Private Ltd	5.4%	+0.6%

Month End Exposures	Current	Monthly Move
Communication Services	2.1%	+0.1%
Consumer	12.7%	-1.5%
Financials	37.2%	+2.8%
Health Care	6.0%	-0.9%
Industrials/Real Estate	17.3%	-7.3%
Information Technology	1.0%	+1.0%
Materials	23.3%	+4.1%
SHORTS	-3.1%	-3.1%
Number of Positions	36	+4
Gross Equity Exposure	102.7%	+1.5%
Cash Weighting	3.6%	+4.8%
Net Equity Exposure	96.4%	-4.8%

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### Fund Characteristics

FUM	AUD \$16m
Portfolio Managers	Campbell Neal, David Poppenbeek and Bill Laister
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	-5.82	2.00	3.79				2.02	6.28	0.65%	-0.18%	
													Incept.	761.48	571.30		
													Incept.	10.04%pa	8.83%pa	25.34%	-4.75%

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

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