

K2 Australian Fund

31 August 2022

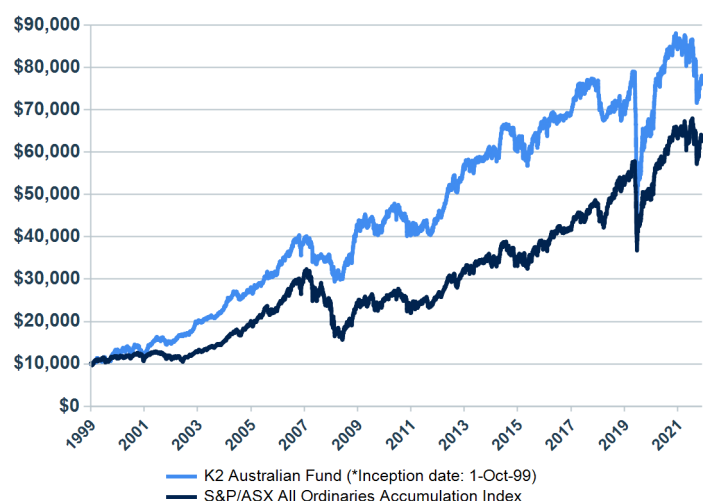


The K2 Australian Fund is an Absolute Return equities fund. The fund is index-unaware, aiming to produce positive absolute returns over the long term with a capital preservation mindset. The Fund's mandate allows it to actively manage its net market exposure – utilising both cash and shorts to help protect clients' capital.

	1 Month	Unit Price	Inception (%pa)
Performance (Net of Fees)	0.89%	134.36	9.31%

Refer below detailed performance data matrix

Growth of \$10,000



Top 5 Stock Holdings	Current	Monthly Move
Macquarie Group Ltd	9.0%	-0.1%
Kina Securities Ltd	7.2%	+0.3%
Seven Group Holdings Ltd	6.2%	-0.5%
BHP Group Ltd	6.2%	+0.3%
Woodside Energy Group Ltd	5.7%	+2.7%

Market Capitalisation Coverage	Current	Monthly Move
Large Caps >=AUD\$7.5b	50.8%	+5.0%
Mid Caps >=AUD\$2b < AUD\$7.5b	18.4%	-1.1%
Small Caps < AUD\$2b	27.1%	+2.8%

Month End Exposures	Current	Monthly Move
Communication Services	2.6%	+0.1%
Consumer	7.0%	+1.6%
Energy	7.5%	+3.0%
Financials	40.4%	-0.2%
Health Care	5.5%	+0.2%
Industrials/Real Estate	21.0%	+1.2%
Materials	12.4%	+0.8%
Number of Positions	29	+2
Gross Equity Exposure	96.3%	+6.7%
Cash Weighting	3.7%	-6.7%
Net Equity Exposure	96.3%	+6.7%

Commentary

The K2 Australian Fund returned 0.89% for the month.

The Reserve Bank of Australia (RBA) has lifted interest rates for the 5th time this year. The RBA's Cash Rate now stands at 2.35% and this has driven a 50% lift in the standard variable home loan rate (SVHLR) over the past 12 months. That said, it is worth noting that the SVHLR is still 35% lower than what was experienced during the 30 years prior to the GFC. The RBA did state that it "...expects to increase interest rates further over the months ahead, but it is not on a pre-set path". We believe that this pragmatic approach to monetary policy will hold the Australian economy in good stead. Inflation hysteria is fading; supply chain congestion is gradually alleviating and surge prices are starting to run off. However, the demand side of the labour market is still robust. We believe that tighter financial conditions will address this in time. Hence, we believe that a soft landing for the Australian economy is probable.

The Australian equity market continues to offer attractive opportunities. The ROE of the ASX200 is expected to be over 15% next year yet the PE ratio is just 13.5x. Granted a meaningful driver of the equity productivity is resource led, however Australia's leading miners are demonstrating an improved level capital allocation discipline. As a result, we believe that Australian equities will provide investors with a steady stream of dividends and capital management proceeds over the years ahead. In addition, the resource companies are consistently adapting to the lower carbon footprint expectations from global citizens.

The best performing holdings for the Fund this month were Medibank Private (MPL) and Pilbara Minerals (PLS) which rose 9% and 32% and 6% respectively. MPL continued to deliver growth in its number of policyholders during FY'22 and this helped drive a 10% lift in its Health Insurance profit. PLS is a lithium company that generated a profit of \$561 million in FY'22. PLS trades on less than 7x next years' expected earnings and has an attractive production profile over the coming years. The largest detractor to performance for the month was Bendigo Bank (BEN). Despite a 9% lift in profits for FY'22, BEN complicated the net interest margin outlook with a new hedging strategy. Despite this, we were pleased to see BEN commit to driving the ROE higher with a renewed focus on productive growth. We believe that BEN offers more compelling return prospects than the four major banks.

Fund Characteristics

Portfolio Managers	Campbell Neal, David Poppenbeek and Bill Laister
Strategy	Australian and New Zealand Equities
Objectives	To deliver consistent returns over the investment cycle with a focus on capital protection during periods of market declines
Return Target	S&P/ASX 300 Accumulation Index + 3%pa
Number of Stocks	40 to 60
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
Investment Horizon	5 Years
Style Bias	Growth At a Reasonable Price
Market Capitalisation Bias	>\$7.5 billion

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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	-1.70	-3.68	-10.94	-13.98	-7.44	1.14%	-0.19%	
2022/23	4.88	0.89											5.82	7.70	7.49%	0.00%	
													Incept.	668.62	529.67		
													Incept.	9.31%pa	8.36%pa	24.62%	-4.56%

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

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