

# K2 Australian Fund

## 30 September 2022

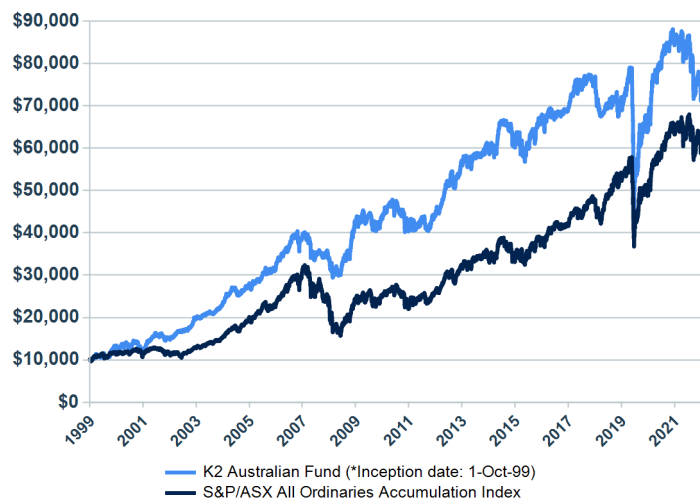


The K2 Australian Fund is an Absolute Return equities fund. The fund is index-unaware, aiming to produce positive absolute returns over the long term with a capital preservation mindset. The Fund's mandate allows it to actively manage its net market exposure – utilising both cash and shorts to help protect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

	1 Month	Unit Price	Inception (%pa)
Performance (Net of Fees)	-6.77%	125.27	8.94%

Refer below detailed performance data matrix

### Growth of \$10,000



Top 5 Stock Holdings	Current	Monthly Move
Macquarie Group Ltd	8.4%	-0.6%
Kina Securities Ltd	7.2%	+0.0%
ASX Ltd	6.4%	+1.9%
BHP Group Ltd	6.4%	+0.2%
Seven Group Holdings Ltd	6.2%	-0.1%

Market Capitalisation Coverage	Current	Monthly Move
Large Caps >=AUD\$7.5b	46.6%	-4.2%
Mid Caps >=AUD\$2b < AUD\$7.5b	17.8%	-0.6%
Small Caps < AUD\$2b	28.7%	+1.6%

Month End Exposures	Current	Monthly Move
Communication Services	2.6%	0.0%
Consumer	6.8%	-0.2%
Energy	7.3%	-0.1%
Financials	37.5%	-2.9%
Health Care	5.6%	+0.1%
Industrials/Real Estate	22.9%	+1.9%
Materials	10.5%	-1.9%
SHORTS	-1.2%	-1.2%
Number of Positions	30	+1
Gross Equity Exposure	94.5%	-1.8%
Cash Weighting	8.0%	+4.3%
Net Equity Exposure	92.0%	-4.3%

### Commentary

The K2 Australian Fund returned -6.77% for the month.

Australia appears to be in the cross hairs of global macro traders. At present the consensus trade seems to be sell long bonds, buy VIX, buy US dollars and sell Australian assets. As a result, the Australian dollar is trading like an emerging market currency. However, Australia is performing better than the currency suggests. Australian households have built up over \$3 trillion of superannuation assets and this now accounts for almost 20% of their total assets. In addition, the Australian household debt to assets ratio is just 17% whilst interest payments on housing debt remains manageable at 4.7% of household disposable income. Interest payments will rise in-line with higher rates over the coming year but the impact is softened by the embracement of fixed rate loans during the COVID pandemic. Additionally, the global economy is losing momentum. Hence, the Reserve Bank of Australia (RBA) should be able to be more pragmatic with monetary policy over the coming months.

Back in the early 1990's, the RBA accepted that an appropriate target for monetary policy would be to achieve an inflation rate of 2-3%, on average, over time. Since then, the RBA has changed the official cash rate on 70 occasions. Importantly, the RBA has kept rates unchanged 80% of the time. Given that global oil and food prices have retreated 27% and 13% respectively since mid-year, and the impact of monetary policy typically occurs with a lag, we feel that the RBA must get more comfortable that its target inflation rate is within reach. Therefore, we believe that the RBA is getting closer to a period of inaction. The ASX 300 has historically responded well when the RBA is sedentary. Since 1992, during the quarters when the cash rate was unchanged, the ASX 300 delivered an average total return of +2.8%. As a result, the Fund is optimistically positioned in financials (ex the major banks) and industrials.

The best performance contributors for the Fund this month were Pilbara Minerals (PLS), Winton Land (WIN) and BHP Group (MPL). Macquarie Group (MQG), Maas Group (MGH) and Bendigo and Adelaide Bank (BEN) were detractors. During the month the Fund bought ASX Ltd (ASX) and Dexus (DXS). Medibank Private (MPL) was sold. The median holding for the Fund, using next years' estimates, trades on a PE of 10.9x, generates an ROE of 14.0% and offers a dividend yield of 4.3%.

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	25 to 50
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	-6.77										-1.34	0.80	6.70%	-0.07%	
													Incept.	616.62	489.34		
													Incept.	8.94%pa	8.02%pa	24.58%	-4.56%

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

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