

K2 Australian Fund

31 October 2022

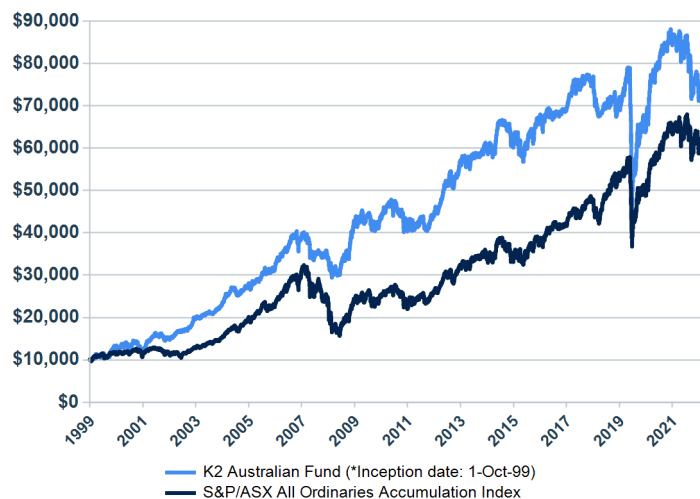


The K2 Australian Fund is an Absolute Return equities fund. The fund is index-unaware, aiming to produce positive absolute returns over the long term with a capital preservation mindset. The Fund's mandate allows it to actively manage its net market exposure – utilising both cash and shorts to help protect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

	1 Month	Unit Price	Inception (%pa)
Performance (Net of Fees)	2.47%	128.36	9.02%

Refer below detailed performance data matrix

Growth of \$10,000



Top 5 Stock Holdings	Current	Monthly Move
Macquarie Group Ltd	9.1%	+0.7%
Kina Securities Ltd	7.2%	+0.1%
Seven Group Holdings Ltd	6.5%	+0.4%
Woodside Energy Group Ltd	6.4%	+0.7%
BHP Group Ltd	6.1%	-0.3%

Market Capitalisation Coverage	Current	Monthly Move
Large Caps >=AUD\$7.5b	51.3%	+4.8%
Mid Caps >=AUD\$2b < AUD\$7.5b	20.8%	+3.1%
Small Caps < AUD\$2b	26.6%	-2.1%

Month End Exposures	Current	Monthly Move
Communication Services	2.9%	+0.3%
Consumer	9.3%	+2.5%
Energy	8.2%	+0.9%
Financials	33.5%	-4.0%
Health Care	6.4%	+0.8%
Industrials/Real Estate	26.8%	+3.9%
Materials	11.9%	+1.3%
SHORTS	-0.5%	+0.7%
Number of Positions	31	+1
Gross Equity Exposure	99.5%	+5.0%
Cash Weighting	1.6%	-6.4%
Net Equity Exposure	98.4%	+6.4%

Commentary

The K2 Australian Fund returned 2.47% for the month.

The Reserve Bank of Australia (RBA) continues to demonstrate a pragmatic approach to monetary policy. It has motioned towards more gradual rate rises of 25 basis points whereas the US Federal Reserve (FED) and the Reserve Bank of New Zealand (RBNZ) have been opting for aggressive 75 basis point hikes. As a result, we believe that the RBA is moving towards a period of interest rate inaction. These phases are embraced by market participants and strong equity returns typically follow. On the other hand, we envisage that if the FED and the RBNZ continue with a more heavy handed approach, economic consequences will be more amplified. Accordingly, we believe that Australia will be able to sustain a stronger and more prolonged phase of economic activity than peer nations.

Macquarie Group (MQG) is the largest holding for the Fund. MQG operates both annuity style and market facing businesses. Despite the uncertain trading conditions globally, MQG is positioning itself for growth. Over the past year MQG has expanded its workforce by 12% and built up surplus capital of more than \$12 billion. We would expect MQG to redeploy capital aggressively as interest rate peak and volatility subsides. Seven Group Holding (SVW) is another large holding for the Fund and heavily leveraged to construction and mining related activity in Australia. An extensive pipeline of infrastructure projects is underpinning construction activity. In addition, despite slower global activity, demand for Australian resources remains solid. As a result, SVW is well positioned to continue to deliver profit growth and is attractively priced at a PE of 10x next years' earnings. The Fund also has a meaningful position in Woodside Energy Group (WDS). WDS has an advantageous position in a world that is seeking energy security; the balance-sheet is strong, profitability is high, and the PE is low.

The best performing holdings for the Fund this month were Woodside Energy Group (WDS), Macquarie Group (MQG) and Judo Capital (JDO) which rose 16%, 9% and 17% respectively. Maas Group (MGH) and Winton Land (WIN) were the largest detractors. During the month the Fund added Goodman Group (GMG) and JB Hi-Fi (JBH). MA Financial (MAF) was sold. The median holding for the Fund has a market capitalisation of \$6 billion and, using next years' estimates, trades on a PE of 11.1x and generates an ROE of 15%.

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	2.47									1.09	6.53	6.01%	-0.14%	
													Incept.	634.30	522.81		
													Incept.	9.02%pa	8.25%pa	24.55%	-4.56%

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

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