

# K2 Australian Fund

## 31 January 2023

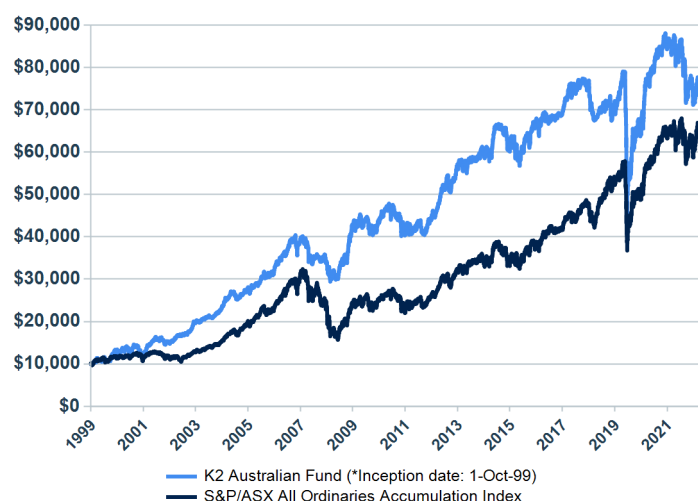


The K2 Australian Fund is an Absolute Return equities fund. The fund is index-unaware, aiming to produce positive absolute returns over the long term with a capital preservation mindset. The Fund's mandate allows it to actively manage its net market exposure – utilising both cash and shorts to help protect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

	1 Month	Unit Price	Inception (%pa)
Performance (Net of Fees)	6.95%	139.15	9.30%

Refer below detailed performance data matrix

### Growth of \$10,000



Top 5 Stock Holdings	Current	Monthly Move
Macquarie Group Ltd	9.7%	+0.6%
Seven Group Holdings Ltd	7.8%	+0.2%
BHP Group Ltd	7.7%	+0.2%
Woodside Energy Group Ltd	6.2%	-0.2%
Kina Securities Ltd	6.1%	-0.4%

Market Capitalisation Coverage	Current	Monthly Move
Large Caps >=AUD\$7.5b	64.2%	-2.7%
Mid Caps >=AUD\$2b < AUD\$7.5b	9.0%	+0.5%
Small Caps < AUD\$2b	24.0%	-0.4%

Month End Exposures	Current	Monthly Move
Communication Services	3.0%	+0.0%
Consumer	9.7%	+0.6%
Energy	8.1%	-0.2%
Financials	32.7%	-2.0%
Health Care	3.7%	+0.2%
Industrials/Real Estate	23.0%	-2.1%
Materials	17.0%	+0.8%
SHORTS	-1.4%	-1.4%
Number of Positions	28	+1
Gross Equity Exposure	98.6%	-1.2%
Cash Weighting	4.2%	+4.1%
Net Equity Exposure	95.8%	-4.1%

### Commentary

The K2 Australian Fund returned 6.95% for the month.

For the past 75 years Australia has measured inflation on a quarterly basis. Last year the Australian Bureau of Statistics finally moved to a monthly CPI measure. Unfortunately, the monthly CPI reading for December was 8.4% stronger than a year ago. The Reserve Bank of Australia (RBA) has been highlighting that Australian business leaders have indicated that costs of doing business have risen and that prices would need to follow. As a result, it would appear that some industries are now aggressively focussed on margin accretion to the detriment of their customers. Airlines, grocers and petrol retailers look to be the main culprits and their actions are having a meaningful impact on inflation gauges. We would prefer that business leaders counter short term input cost increases with long term productivity solutions. Supply chains have decongested, "just in case" inventories are no longer needed, and worker mobility is recommencing. Accordingly, a number of industries will increasingly be exposed to an improved level of competition and market share will ultimately cede from the complacent to the focussed. Macquarie Group (MQG) is a company that typifies this opportunity.

MQG is a specialist provider of financial services; two thirds of the activities have an annuity bias and a third are more market facing. The annuity style activities are mainly asset management and banking and have both displayed strong growth attributes in recent years. Over the past decade MQG has more than doubled its assets under management to nearly \$800b. Despite this, MQG is still a relatively small player in the US\$100t+ industry. MQG's banking activities are also relatively small; MQG's Australian mortgage book has been growing by 20%pa and is now over \$100b but is still less 4% of the market. MQG's market facing operations employ around 4,000 staff whereas global peers like Goldman Sachs and JP Morgan have 48,000 and 290,000 have employees respectively. Hence, we envisage that MQG, despite its recent success, can continue to grow quicker than its largest competitors and do so without disturbing the balance of the market.

The best performance contributors for the Fund this month were Macquarie Group (MQG), BHP Group (BHP) and Seven Group (SVW). During the month the Fund acquired a position in Westpac Bank (WBC). Dexus (DXS) was sold. The median holding for the Fund has a market capitalisation of \$12.1 billion.

### 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	5.05	-3.51	6.95						9.59	16.71	4.50%	-0.39%	
													Incept.	696.02	582.31		
													Incept.	9.30%pa	8.58%pa	24.49%	-4.57%

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

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