

K2 Australian Fund

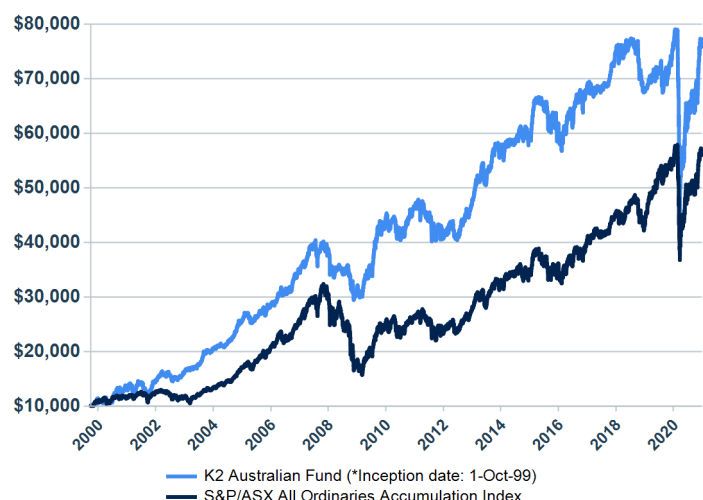
31 December 2020



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	Inception (%pa)	Inception Date
Performance (Net of Fees)	2.4%	10.0%	1-Oct-1999
Average Net Exposure	97.4%	73.3%	

Growth of \$10,000



Top 5 Stock Holdings	Current	Monthly Move
BHP Group Ltd	8.1%	+0.8%
Macquarie Group Ltd	7.9%	-0.1%
Seven Group Holdings Ltd	7.4%	+0.4%
RIO Tinto Ltd	7.0%	+0.7%
Medibank Private Ltd	5.4%	+2.9%

Month End Exposures	Current	Monthly Move
Consumer	9.2%	-2.5%
Financials	41.5%	+0.5%
Health Care	7.9%	+0.3%
Industrials	12.7%	+0.1%
Materials	23.4%	+2.5%
Real Estate	3.3%	+1.4%
Number of Positions	34	0
Gross Equity Exposure	98.0%	+2.3%
Cash Weighting	2.0%	-2.3%
Net Equity Exposure	98.0%	+2.3%

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Commentary

The very strong returns continued in December. The K2 Australian Fund returned +2.4% for the month to be +0.6% ahead of the benchmark (BM). The fund has now returned +22.9% this financial year to be +7.2% ahead of the BM. Since the lows of the March correction the fund is up +70.3% outperforming the BM by +17.7%. The combination of good stock selection and investing cash early in the recovery have contributed to the strong performance vs benchmark since the severe March correction. Importantly, the fund has delivered a consistent 10% p.a. return over 21 years without excess market volatility.

Back in March 2020 we commented that:

"Today the world is in hibernation. The banking system has had a decade to prepare for these very conditions and fiscal support has been widespread. We believe that today's investment opportunities are as attractive as those that were presented to the Fund during the 1st quarter of 2009. The Fund subsequently delivered a 35% return over the following 12 months."

Pleasingly since the end of March 2020 the Fund has delivered a +47% return. The Fund's net exposure has averaged 95.5% over the past 3 quarters and is still optimistically positioned. Despite relatively high valuation multiples (the PE of the ASX200 is now over 20x next year's expected earnings) we believe that conditions continue to favour equities. Central Bankers around the world are determined to keep interest rates low for the foreseeable future. Inflation pulses are rising however this should not disturb the Quantitative Easing commitment that Central banks have made. The 3 largest Central Banks (US Fed, ECB and BOJ) have collectively increased their balance-sheets by more than US\$7 trillion this year and an unwinding of these positions is unlikely to be considered until the world has effectively eradicated the COVID-19 virus. In a zero-bound investing world, Australian equities continue to offer a compelling yield with a dividend stream that will escalate over the years ahead.

The best performing holdings for the Fund this month were resource heavy weights BHP Group (BHP), Rio Tinto Ltd (RIO) and Fortescue Metals Group (FMG) which rose 11%, 12% and 28% respectively. The price of iron-ore rose more than 30% for the month and this triggered a double digit increase in profit forecasts for our major resource holdings. Detractors to performance for the month included Corporate Travel Management (CTD), Austal Ltd (ASB) and a short on Afterpay Ltd (APT) which was closed out during the month.

Fund Characteristics

FUM	AUD \$21m
Portfolio Managers	Campbell Neal, David Popenbeek and Josh Kitchen
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				1.9	2.0	9.5	-3.9	-2.6	5.6	-4.0	-1.9	2.4	8.5	16.0	52.0%	-12.8%
2000/01	13.1	6.8	-3.1	0.1	4.5	0.9	4.5	-2.9	-11.9	13.0	5.2	0.5	32.2	8.8	27.7%	-16.7%
2001/02	-7.9	-4.8	-5.4	8.7	11.5	1.8	3.9	3.5	-0.2	-0.4	2.7	-2.7	9.5	-4.5	32.1%	-14.6%
2002/03	-6.3	3.6	-0.9	1.7	1.6	4.3	1.8	1.2	-0.2	2.2	0.7	1.5	11.2	-1.1	51.6%	-14.4%
2003/04	3.7	7.0	1.6	2.5	-1.2	2.9	0.4	1.4	0.5	-0.1	0.3	2.2	23.2	22.4	36.0%	-3.7%
2004/05	3.1	1.4	4.2	4.5	3.7	1.4	3.8	0.3	-2.0	-3.4	0.8	3.2	22.6	24.7	26.9%	-5.2%
2005/06	1.3	0.7	3.9	-3.2	3.7	1.4	1.7	0.5	3.5	1.9	-0.4	2.0	18.3	24.2	27.6%	-3.9%
2006/07	-0.9	2.3	1.5	5.8	0.4	3.0	1.0	0.5	3.0	2.7	3.5	0.2	25.3	30.3	32.2%	-4.9%
2007/08	-0.6	-1.5	2.6	0.9	-1.9	-0.3	-9.3	-0.4	-1.5	1.6	0.9	-2.3	-11.6	-12.1	51.1%	-8.2%
2008/09	0.3	2.8	-5.8	-5.6	-3.8	3.4	-1.6	-1.2	5.7	4.7	0.9	2.9	1.9	-22.1	46.6%	-3.4%
2009/10	7.2	7.4	5.1	-1.0	1.8	3.5	-4.0	-0.2	3.5	-0.6	-5.7	-0.9	16.3	13.8	10.3%	-2.6%
2010/11	2.1	-1.1	4.7	3.3	0.1	3.4	-0.5	1.9	0.0	-1.6	-1.7	-0.8	10.0	12.2	14.1%	-4.0%
2011/12	-3.4	-0.6	-4.8	3.7	-2.8	-2.1	3.1	1.9	1.9	-0.2	-5.5	-0.4	-9.2	-7.0	23.3%	-3.5%
2012/13	3.3	2.9	1.2	3.6	0.1	3.1	4.5	4.5	0.3	4.5	-2.8	-1.4	26.1	20.7	7.2%	-0.2%
2013/14	3.3	1.3	4.6	2.5	-0.3	0.1	-2.3	2.2	1.7	-0.1	0.0	-0.9	12.5	17.6	11.7%	0.0%
2014/15	2.8	1.6	-2.0	2.0	-0.8	-0.7	3.5	6.2	0.4	-0.3	1.2	-3.0	11.0	5.7	18.5%	-0.3%
2015/16	1.6	-4.1	-2.7	3.4	-0.6	-1.7	-3.8	-1.4	4.4	3.1	2.2	-3.1	-3.2	2.0	19.8%	-0.3%
2016/17	5.1	1.3	1.3	-1.4	0.0	2.9	0.2	-1.6	1.0	-0.1	0.1	0.0	9.0	13.1	16.7%	-1.5%
2017/18	1.0	0.3	0.5	2.9	1.8	3.2	0.8	0.7	-2.7	1.7	0.7	1.6	13.1	13.7	21.6%	-3.7%
2018/19	0.4	-1.4	0.1	-7.2	-2.4	-1.2	0.1	2.4	0.2	1.4	0.3	-0.3	-7.6	11.0	39.3%	-3.3%
2019/20	2.2	-4.6	3.6	-1.0	4.0	2.1	2.7	-9.4	-26.2	10.8	5.7	2.2	-12.7	-7.2	13.6%	-1.6%
2020/21	3.1	5.1	-3.9	1.7	13.3	2.4							22.9	15.7	2.8%	-0.2%
												Incept	662.5	461.1		
												Incept	10.0%pa	8.5%pa	26.5%	-5.0%

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

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