

K2 Global High Alpha Fund

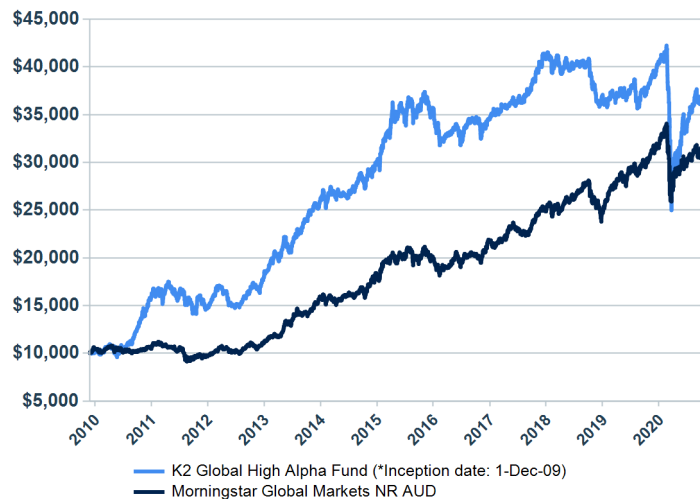
30 September 2020



The K2 Global High Alpha 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) | -1.0% | 12.8% | 1-Dec-2009 |
| Average Net Exposure | 96.1% | 81.8% | |

Growth of \$10,000



| Top 5 Stock Holdings | Current | Monthly Move |
|------------------------------|---------|--------------|
| Money3 Corp Ltd | 3.8% | +0.1% |
| Kina Securities Ltd | 3.7% | +0.7% |
| Summerset Group Holdings Ltd | 3.5% | +0.3% |
| BHP Group Ltd | 3.4% | -0.1% |
| Macquarie Group Ltd | 3.2% | -0.1% |

| Month End Exposures | Current | Monthly Move |
|---------------------------------|---------|--------------|
| Communication Services | 5.5% | +0.1% |
| Consumer | 14.7% | -1.2% |
| Energy | 0.4% | 0.0% |
| Financials | 24.1% | +0.8% |
| Health Care | 11.6% | +0.8% |
| Industrials | 7.9% | +1.8% |
| Information Technology | 11.1% | +0.8% |
| Materials | 14.5% | -1.8% |
| Other | 2.4% | 0.0% |
| Real Estate | 3.1% | +0.2% |
| SHORTS | -1.0% | -0.5% |
| Number of Positions | 65 | -4 |
| Gross Equity Exposure | 96.3% | +1.3% |
| Cash Weighting | 5.7% | -0.4% |
| Net Equity Exposure | 94.3% | +0.4% |
| Currency Exposure Hedged of AUD | 91.1% | -0.8% |

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Commentary

The K2 Global High Alpha Fund returned -0.1% for the month of September. The fund has performed strongly over the past six months and has returned +28% since 31 March, significantly outperforming the benchmark return of 10%. The combination of good stock selection, accumulating the AUD at lower levels and investing available excess cash early in the new cycle that began in March following the unprecedented coordinated policy stimulus, have all contributed to the very strong excess return of +18% vs benchmark for investors in the past 6 months.

Global equities markets retreated in September to post their first monthly loss since the rout in March. Investor sentiment deteriorated as the political stalemate in the US over the amount of additional stimulus continued. Ultimately we expect an agreement to be reached as the gap between the two parties gradually narrows. While in Europe the threat of further lockdowns as case numbers increase, particularly in the UK, weighed on markets. Further, it is now widely expected that a definitive result for the US election might not be known until weeks or possibly months after November 3rd due to the disproportionately large number of postal votes and recounts that might have to take place. Markets will not like this uncertainty.

A significant positive contributor for the month included US listed DraftKings (+66%) aided by the commencement of NFL and college football. DraftKings is the largest pure play exposure to US sports betting and i-gaming markets. State by state, the country has begun the process of legalising sports betting and with over 4m existing fantasy sports accounts, DraftKings is well positioned to capture a significant share of this multi-billion dollar opportunity. Other strong performers in September were Japanese accounting software company Freee (+36%) and global sporting giant Nike (+12%) following the company's largest EPS beat in over 10 years (reported EPS of \$US0.95 versus consensus expectations of US\$0.48).

The fund ended the month with a net exposure to equities of 94% reflecting our unchanged overall optimistic stance. Once the election dust settles and regardless of the result, fiscal stimulus will be high on the agenda to propel economic momentum.

The AUD ended the month down -2.96% versus the USD at 0.7171 providing a small gain on of 25bps on the unhedged currency position. The fund is currently 92% hedged to the AUD providing capital protection against a rising AUD.

Fund Characteristics

| | |
|--------------------|---|
| FUM | AUD \$36m |
| Portfolio Managers | Campbell Neal, David Poppenbeek, Josh Kitchen and Tony Sutton |
| Strategy | International 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 120 |
| Cash | Up to 100% of portfolio |
| Distributions | Annually |
| Management Fee | 2.05% |
| Buy/Sell | Monthly Application/Redemption |
| Performance Fee | 20.5% of the amount by which the NAV per unit exceeds the High Water Mark |

K2 Global High Alpha 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 |
|---------|-----|------|------|------|------|------|------|------|-------|------|------|--------|---------|-------------------|--------------|---------------|
| 2009/10 | | | | | | 0.8 | -1.3 | 3.5 | 4.6 | -0.3 | -5.4 | 1.8 | 3.4 | 1.5 | 33.7% | -0.3% |
| 2010/11 | 5.3 | 1.4 | 13.2 | 9.0 | 5.9 | 10.2 | 0.8 | 2.0 | 0.7 | 3.4 | -1.7 | -3.1 | 56.6 | 3.5 | 9.6% | -0.8% |
| 2011/12 | 1.0 | -3.1 | -8.6 | 8.9 | -3.3 | -3.5 | 6.2 | 7.9 | 0.0 | -2.5 | -7.3 | -2.3 | -8.0 | -2.6 | 29.0% | -0.7% |
| 2012/13 | 1.5 | 4.5 | 4.0 | 3.5 | -1.0 | 6.9 | 4.9 | 4.4 | 2.2 | 4.4 | 1.8 | -0.8 | 42.7 | 31.0 | 13.9% | -0.4% |
| 2013/14 | 4.9 | 2.2 | 4.7 | 4.3 | 3.2 | 1.6 | 0.3 | 2.4 | -0.6 | 0.1 | 0.2 | -1.7 | 23.7 | 19.6 | 8.0% | 0.0% |
| 2014/15 | 4.6 | 1.6 | 1.6 | 1.1 | 1.2 | 3.3 | 4.8 | 4.5 | 2.4 | 3.2 | 3.7 | -3.5 | 31.9 | 23.9 | 9.2% | -0.1% |
| 2015/16 | 4.5 | -2.4 | 0.7 | 3.1 | -1.9 | -1.0 | -4.7 | -4.7 | 1.6 | 0.8 | 2.1 | -4.1 | -6.4 | -0.6 | 18.1% | -0.5% |
| 2016/17 | 3.8 | 2.2 | -0.1 | -1.9 | 0.6 | 1.5 | 2.2 | -0.8 | 2.6 | 0.0 | 1.9 | -0.9 | 11.8 | 15.4 | 19.7% | -2.4% |
| 2017/18 | 0.1 | 3.7 | 1.4 | 3.6 | 1.8 | 1.2 | -0.4 | -0.2 | -1.3 | 0.2 | -0.7 | 0.6 | 10.4 | 15.1 | 16.4% | -3.0% |
| 2018/19 | 0.6 | 0.5 | -0.3 | -4.9 | -5.3 | 1.6 | -3.3 | 3.8 | -1.2 | 2.7 | -1.8 | 1.3 | -6.6 | 10.5 | 38.3% | -6.2% |
| 2019/20 | 2.0 | -3.5 | 2.8 | 0.9 | 3.4 | 2.2 | 1.1 | -7.8 | -23.2 | 8.1 | 6.3 | 1.4 | -10.0 | 3.2 | 14.8% | -2.8% |
| 2020/21 | 4.7 | 5.5 | -1.0 | | | | | | | | | | 9.4 | 3.8 | 3.9% | -0.4% |
| | | | | | | | | | | | | Incept | 268.4 | 210.4 | | |
| | | | | | | | | | | | | Incept | 12.8%pa | 11.0%pa | 17.9% | -1.5% |

(1) Morningstar Global Markets NR AUD

DISCLAIMER: Returns are shown after fees (including performance fees) and expenses have been deducted and assume the reinvestment of income distributions. Please note that past performance is not a reliable indicator of future performance. The information contained in this document is produced by K2 Asset Management Ltd ("K2") in good faith, but does not constitute any representation or offer by K2. It is subject to change without notice, and is intended as general information only and is not complete or definitive. K2 does not accept any responsibility, and disclaims any liability whatsoever for loss caused to any party by reliance on the information in this document. A product disclosure statement for general information on any Fund referred to in this document can be obtained at www.k2am.com.au or by contacting K2. You should read the product disclosure statement and consider whether the product is appropriate for you before making a decision to acquire or continue to hold an interest in a Fund. Fees referred to in this document are inclusive of GST and RITC and do not include expense recoveries.

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