

# K2 Select International Fund

## 31 July 2022

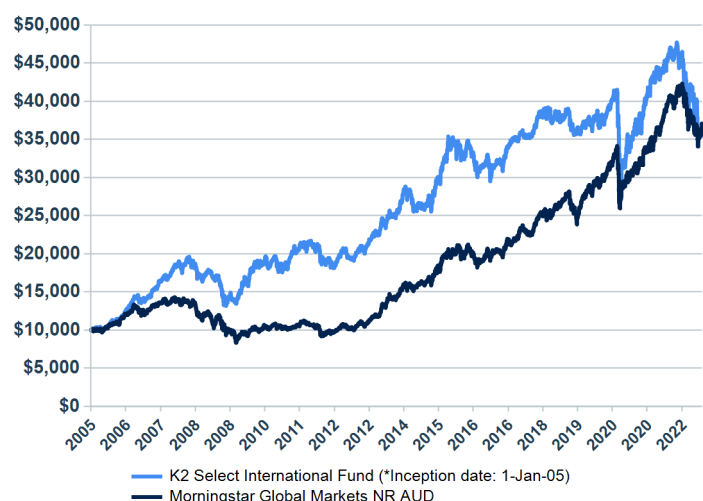


The K2 Select International Fund is an Absolute Return equities fund. The fund is index-unaware, aiming to produce positive absolute returns over the long term with a capital preservation mindset. The Fund's mandate allows it to actively manage its net market exposure – utilising both cash and shorts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

|                           | 1 Month | Unit Price | Inception (%pa) |
|---------------------------|---------|------------|-----------------|
| Performance (Net of Fees) | 4.96%   | 119.22     | 7.74%           |

Refer below detailed performance data matrix

### Growth of \$10,000



| Top 5 Stock Holdings   | Current | Monthly Move |
|------------------------|---------|--------------|
| Microsoft Corp         | 6.3%    | +0.3%        |
| Visa Inc               | 5.5%    | +0.2%        |
| Macquarie Group Ltd    | 5.5%    | +0.4%        |
| RIO Tinto Plc-Spon Adr | 4.6%    | -0.2%        |
| BHP Group Ltd-Spon Adr | 4.0%    | -0.2%        |

| Market Capitalisation Coverage | Current | Monthly Move |
|--------------------------------|---------|--------------|
| Large Caps >=AUD\$7.5b         | 49.5%   | -6.6%        |
| Mid Caps >=AUD\$2b < AUD\$7.5b | 13.8%   | +2.6%        |
| Small Caps < AUD\$2b           | 21.6%   | +1.5%        |

| Month End Exposures             | Current | Monthly Move |
|---------------------------------|---------|--------------|
| Communication Services          | 6.1%    | -0.3%        |
| Energy                          | 5.0%    | +0.9%        |
| Financials                      | 33.8%   | -3.4%        |
| Health Care                     | 5.3%    | +1.0%        |
| Industrials/Real Estate         | 14.3%   | +0.7%        |
| Information Technology          | 11.8%   | +0.6%        |
| Materials                       | 8.8%    | -2.0%        |
| Number of Positions             | 33      | -4           |
| Gross Equity Exposure           | 85.0%   | -2.5%        |
| Cash Weighting                  | 15.0%   | +2.5%        |
| Net Equity Exposure             | 85.0%   | -2.5%        |
| Currency Exposure Hedged of AUD | 95.9%   | -2.1%        |

### Commentary

The K2 Select International Fund returned +5.0% for the month. The market recovery was a function of a number of different factors. The additional confirmation of good US earnings, reasonable underlying economic conditions combined with cheap valuations, all helped improve investor sentiment. Looking forward, there will continue to be some ongoing uncertainty with regard to the pace of tighter monetary policy. The monthly flow of economic data will help markets build a better picture of the economic and therefore earnings momentum.

Despite the tighter monetary policy by developed market central banks globally, the pace of earnings growth and the tight labour market remain robust. They do not exhibit recessionary levels as some other indicators suggest. The ongoing uncertainty for markets regarding the pace of US rate hikes will remain as markets look for some confirmation on lower inflation expectations. It would be reasonable to conclude that we are close to peak inflation. This is a positive for market sentiment going forward. The pace of rate hikes from the US Fed has been robust year to date as they have signalled to the market the need to address inflation expectations and slow down the robust momentum of the US economy. The Fed Funds rate is anticipated to approach 3.5% by year-end and each Fed Fund move will be data dependent. The Fed is no longer behind the curve and price stability is their primary focus.

There are a number of underlying positives. Credit conditions, corporate balance sheets, tight labour market, lower energy prices and household savings in the key developed economies remain in good aggregate condition. This was confirmed with some recent economic data and quarterly earnings. Some key risks are the elevated geo-political concerns between China and the west, uncertainty of peak inflation, ongoing supply chain disruptions and corporate costs.

The K2 Select International Fund continues to have a USD exposure currency hedge in place which will benefit from a rising AUD. We view the peak USD strength in the June quarter is the peak in the cycle. The portfolio cash position was 15% reflecting a cautiously optimistic outlook. Some of our largest weightings include Microsoft, VISA, Macquarie, Rio, Toronto Dominion Bank and JP Morgan. Some of the best performing holdings for the Fund this month were MA Financial, Microsoft, Macquarie, VISA, Summerset Group and Netflix.

| Fund Characteristics |   |
|----------------------|---|
| Portfolio Managers   | Campbell Neal, David Poppenbeek and Bill Laister  |
| 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 80  |
| Cash                 | Up to 100% of portfolio   |
| Distributions        | Annually  |
| Management Fee       | 1.36%   |
| 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                       |

George Boubouras  
Head of Research  
research@k2am.com.au  
03 9691 6111

Marcela Tirado  
Client Services  
invest@k2am.com.au  
03 9691 6111

## K2 Select International 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 |        |
|---------|-------|-------|-------|-------|-------|-------|-------|-------|--------|-------|-------|--------|---------|-------------------|--------------|---------------|--------|
| 2004/05 |       |       |       |       |       |       | 0.89  | 1.30  | -0.44  | -1.38 | 1.36  | 3.79   | 5.56    | 3.03              | 50.51%       | -4.41%        |        |
| 2005/06 | 4.91  | 0.73  | 2.64  | -0.96 | 4.20  | 4.43  | 5.11  | 4.42  | 5.66   | -0.07 | -3.66 | 2.02   | 33.16   | 22.26             | 21.28%       | -4.15%        |        |
| 2006/07 | 0.43  | 2.13  | 2.80  | 3.60  | 1.97  | 4.81  | 2.40  | 0.13  | 1.06   | 3.14  | 5.05  | -0.29  | 30.70   | 9.93              | 23.64%       | -1.06%        |        |
| 2007/08 | 0.09  | 0.64  | 2.57  | 3.36  | -3.71 | -1.08 | -8.04 | -0.63 | -1.22  | 2.98  | 1.83  | -3.45  | -7.04   | -19.95            | 43.46%       | -7.29%        |        |
| 2008/09 | -2.51 | 2.89  | -8.60 | -9.70 | -2.45 | 5.09  | -3.10 | -2.84 | 4.93   | 6.88  | 7.84  | -0.65  | -4.00   | -15.30            | 51.14%       | -3.95%        |        |
| 2009/10 | 7.58  | 2.13  | 3.34  | -1.70 | 1.41  | 3.03  | -4.09 | 0.16  | 4.70   | 0.17  | -5.42 | -2.72  | 8.11    | 8.36              | 11.69%       | -1.03%        |        |
| 2010/11 | 4.31  | -2.46 | 8.39  | 2.70  | 0.04  | 3.75  | 0.43  | 0.92  | 0.98   | 1.73  | -1.91 | -1.55  | 18.20   | 3.50              | 12.01%       | -2.42%        |        |
| 2011/12 | -2.18 | -4.47 | -4.46 | 2.48  | -3.02 | -1.70 | 3.61  | 4.73  | 3.57   | -0.02 | -4.28 | -1.48  | -7.57   | -2.59             | 22.89%       | -2.93%        |        |
| 2012/13 | 0.63  | 3.44  | 1.97  | 0.58  | 1.43  | 2.81  | 2.74  | 1.78  | 0.72   | 2.50  | 4.06  | -0.44  | 24.49   | 31.02             | 6.72%        | -0.35%        |        |
| 2013/14 | 3.93  | -0.38 | 0.47  | 2.43  | 4.36  | 5.47  | -0.93 | 1.56  | -5.72  | -2.51 | 1.16  | -1.82  | 7.72    | 19.62             | 8.01%        | -0.15%        |        |
| 2014/15 | 0.65  | 1.03  | 3.92  | 0.77  | 4.13  | 3.74  | 4.04  | 4.23  | 2.06   | 3.09  | 3.14  | -2.68  | 31.74   | 23.89             | 13.16%       | -0.63%        |        |
| 2015/16 | -0.13 | -2.30 | -1.88 | 5.41  | -2.12 | -1.91 | -3.98 | -3.27 | 2.08   | 0.40  | 3.97  | -7.06  | -10.88  | -0.60             | 20.86%       | -0.71%        |        |
| 2016/17 | 2.90  | 2.13  | 0.13  | -1.29 | 3.85  | 2.98  | 2.07  | 0.88  | 0.42   | 1.23  | 1.42  | -2.06  | 15.50   | 15.36             | 23.10%       | -2.82%        |        |
| 2017/18 | 0.26  | 0.99  | 1.89  | 3.62  | 2.39  | -1.72 | 2.11  | -0.29 | -2.65  | 0.70  | -0.69 | -0.25  | 6.38    | 15.13             | 21.63%       | -3.25%        |        |
| 2018/19 | 0.83  | 2.67  | -0.16 | -5.59 | -1.95 | 2.09  | -2.55 | 3.58  | -0.28  | 3.12  | -4.07 | 3.51   | 0.69    | 10.51             | 32.63%       | -3.84%        |        |
| 2019/20 | 1.29  | -1.58 | 1.39  | 0.26  | 2.89  | 1.88  | 0.26  | -8.61 | -16.74 | 4.90  | 6.25  | -0.27  | -9.91   | 3.22              | 9.52%        | -2.35%        |        |
| 2020/21 | 2.93  | 5.39  | 0.02  | -2.91 | 9.05  | 4.76  | -0.45 | 4.70  | 1.05   | 2.69  | -0.53 | 1.80   | 31.80   | 28.43             | 2.59%        | -0.26%        |        |
| 2021/22 | 1.65  | 3.32  | -3.37 | 2.76  | -3.89 | 2.78  | -6.81 | -3.68 | 1.13   | -3.00 | -1.19 | -11.91 | -21.05  | -8.80             | 5.43%        | -0.15%        |        |
| 2022/23 | 4.96  |       |       |       |       |       |       |       |        |       |       |        | 4.96    | 5.47              | 19.15%       | 0.00%         |        |
|         |       |       |       |       |       |       |       |       |        |       |       |        | Incept. | 271.15            | 270.53       |               |        |
|         |       |       |       |       |       |       |       |       |        |       |       |        | Incept. | 7.74%pa           | 7.73%pa      | 21.02%        | -2.20% |

(1) Morningstar Global Markets NR AUD

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