

K2 Select International Fund

30 September 2022

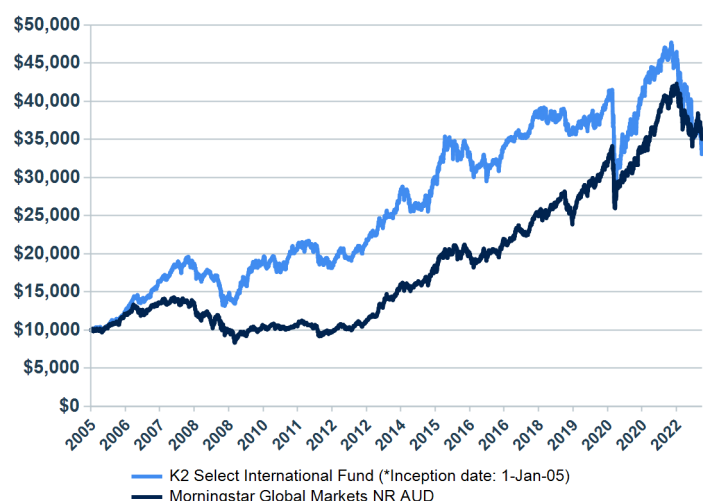


The K2 Select International Fund is an Absolute Return equities fund. The fund is index-unaware, aiming to produce positive absolute returns over the long term with a capital preservation mindset. The Fund's mandate allows it to actively manage its net market exposure – utilising both cash and shorts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

	1 Month	Unit Price	Inception (%pa)
Performance (Net of Fees)	-8.79%	106.34	6.98%

Refer below detailed performance data matrix

Growth of \$10,000



Top 5 Stock Holdings	Current	Monthly Move
Macquarie Group Ltd	8.4%	+0.6%
Kina Securities Ltd	7.3%	+0.7%
BHP Group Ltd-Spon Adr	7.1%	+2.9%
RIO Tinto Plc-Spon Adr	7.0%	+2.5%
Alphabet Inc	6.2%	+1.2%

Market Capitalisation Coverage	Current	Monthly Move
Large Caps >=AUD\$7.5b	45.1%	+1.6%
Mid Caps >=AUD\$2b < AUD\$7.5b	17.4%	-1.9%
Small Caps < AUD\$2b	35.2%	+4.6%

Month End Exposures	Current	Monthly Move
Communication Services	10.6%	+1.6%
Consumer	7.5%	+0.0%
Energy	8.2%	+0.2%
Financials	31.2%	-6.3%
Health Care	8.4%	+0.1%
Industrials/Real Estate	15.7%	+1.1%
Materials	16.4%	+7.5%
Number of Positions	33	-1
Gross Equity Exposure	98.0%	+4.3%
Cash Weighting	2.0%	-4.3%
Net Equity Exposure	98.0%	+4.3%
Currency Exposure Hedged of AUD	83.9%	-13.3%

Commentary

The K2 Select International Fund returned -8.79% for the month in another volatile month. Global equity markets have had a difficult year. Markets remain volatile and the uncertainty persists.

The US Fed increased the Fed Funds rate by a further 75 basis points at the FOMC Meeting in late September. This now takes the rate to a restrictive 3%-3.25% target (lower and upper band). Interestingly the pace of US rate hikes in the current cycle have now increased at a faster pace compared to the previous aggressive rate hike periods of 1994 (Greenspan) and 1983 (Volker) periods. The commentary from the Fed Chair have continued to reinforce their hawkish comments. This remains a challenge for investor sentiment. The pace of the slowdown year-to-date to address inflation risks has been painful and felt by the market performance including defensive asset classes such as fixed income.

In addition to the US interest rate hike, restrictive quantitative tightening (QT) is also underway effectively slowing credit growth and contracting the money supply. Further, the strength of the USD this year vs all currencies assists the Fed as a strengthening currency is less inflationary for the economy. However, the strength of the USD has acted as a wrecking ball delivering plenty of economic pain for many economies, including emerging economies with USD liabilities.

Inflation risks look set to persist despite the view that peak inflation is behind us. Getting core inflation back towards the 2%-3% targets in many western economies remains a challenge. Pricing in rate cuts remains pre-mature and the record low "near zero" rate settings of the recent past will not return anytime soon. Despite the many challenges, there are some positives that indicate the economy can absorb the painful monetary setting although some sectors and households will be impacted more than others. Aggregate corporate earnings and credit conditions remain positive, household savings remain high (but falling) and the labour market remains robust. The outlook will however remain uncertain. Hence valuations remain compelling.

The portfolio cash position is lower at around 2% at month-end compared to 15% last quarter. Some of the best performing holdings for the Fund in the September quarter include Netflix, Summerset, Stanmore Resources, Cohen & Steers and US Bancorp.

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

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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	-2.21	-8.79										-6.38	-0.20	12.42%	-0.03%	
													Incept.	231.06	250.61		
													Incept.	6.98%pa	7.32%pa	20.67%	-2.20%

(1) Morningstar Global Markets NR AUD

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