

K2 Select International Fund

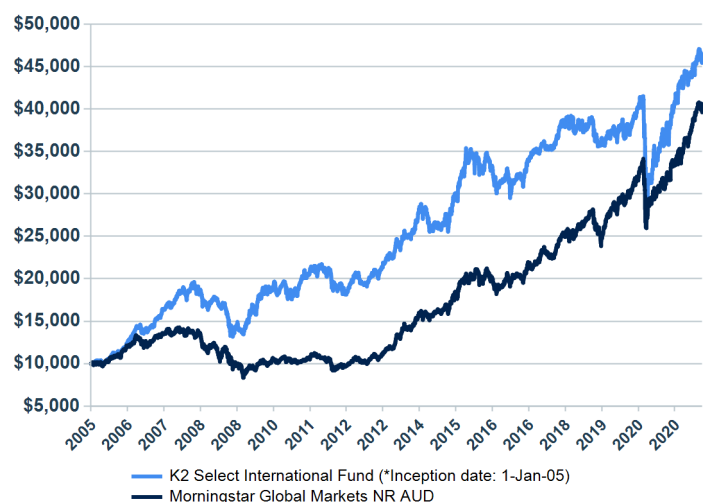
30 September 2021



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	3 Months	6 Months	1 Year	5 Years (%pa)	10 Years (%pa)	Inception (%pa)
Performance (Net of Fees)	-3.37%	1.48%	5.52%	23.28%	7.22%	9.28%	9.46%

Growth of \$10,000



Top 5 Stock Holdings	Current	Monthly Move
Ryman Healthcare Ltd	7.0%	+0.1%
Microsoft Corp	5.6%	-0.5%
Visa Inc	4.4%	-0.3%
JPMorgan Chase & Co	4.3%	+0.3%
Mastercard Inc	4.2%	-0.3%

Month End Exposures	Current	Monthly Move
Communication Services	8.5%	+1.7%
Consumer	17.5%	-0.7%
Energy	1.1%	-0.2%
Financials	27.5%	-1.6%
Health Care	11.3%	0.0%
Industrials/Real Estate	5.5%	+2.3%
Information Technology	22.0%	-1.2%
Materials	2.7%	-0.5%
Utilities	3.2%	0.0%
Number of Positions	37	+2
Gross Equity Exposure	99.3%	-0.1%
Cash Weighting	0.7%	+0.1%
Net Equity Exposure	99.3%	-0.1%
Currency Exposure Hedged of AUD	68.5%	+2.4%

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Commentary

The K2 Select International Fund returned -3.37% for the month, +11.1% this calendar year and +23.28% over the past year. The combination of good stock selection and the accumulation of the AUD at lower levels in 2020 have all contributed to the strong performance.

Global equity markets declined in September as investors battled fires on a number of fronts. Ranging from the threat of more permanent inflation to the potential default of one of China's larger property developers. Following the FOMC meeting towards the end of the month, Chairman Powell once again re-iterated his timetable for tapering and unwillingness to raise interest rates in the short term. Despite no real new news being delivered the delayed reaction from bond markets caught investors by surprise. Yields on US 10-year bonds added a quick 20 basis points to end the month at 1.49%. This put immediate pressure on equities with the biggest impact being felt by long duration technology stocks that rely on low discount rates to justify their lofty valuations.

A less transitory inflationary environment is certainly starting to be priced by markets despite unrelenting table thumping to the contrary by the Fed. On one hand lumber and iron ore prices have fallen by -60% and -45% respectively from their peaks. While on the other hand oil continues to grind higher. However, for inflation to be sustained it will need to persist for years. Key indicators that we are closely monitoring include food prices and wage growth.

Meanwhile in China, the regulatory reset that unofficially began almost 12 months ago with the cancellation of Ant Group's US\$37bn IPO claimed another set of victims this month. This time, and somewhat surprisingly, it was the Macau casino operators. Not only are they still recovering from Covid closures, they are large employers and pay significant amounts of tax. In addition, China Evergrande Group, a major property developer weighed down by US\$300bn of liabilities, is hanging on by a thread. While on the surface it is business as usual for credit markets the risk of contagion is real.

Positive contributors to fund performance included re-opening beneficiaries Norwegian Cruise Line, Royal Caribbean and SSP Group. With household savings rates remaining elevated consumers are itching to spend with holidays high on the agenda. And they love to cruise.

The AUD fell -1.34% to 0.7213. The fund is currently 68% hedged to the AUD providing capital protection against a rising AUD.

The fund remains fully invested and positioned for the ongoing cyclical recovery.

Fund Characteristics

FUM	AUD \$15m
Portfolio Managers	Campbell Neal, David Poppenbeek 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 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

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										1.48	2.82	2.20%	0.00%
Incept.													354.53	296.08		
Incept.													9.46%pa	8.56%pa	20.95%	-2.31%

(1) Morningstar Global Markets NR AUD

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