

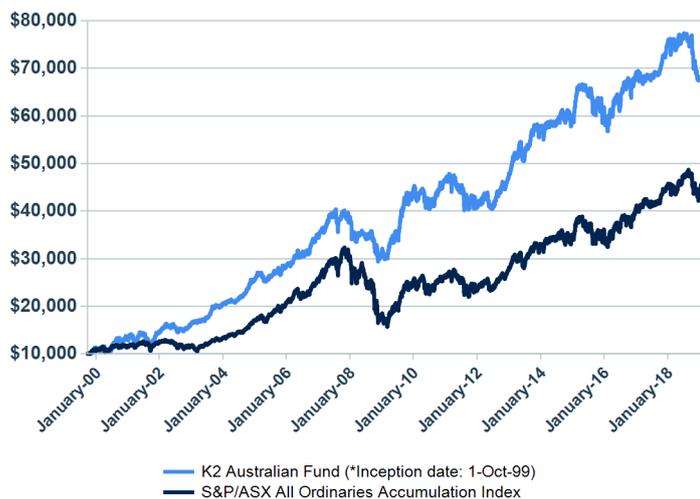
# K2 Australian Fund

## 31 January 2019



	1 Month	3 Months	1 Year	3 Years (%pa)	5 Years (%pa)	10 Years (%pa)	15 Years (%pa)	Inception (%pa)	Inception Date
Performance (Net of Fees)	0.1%	-3.5%	-9.5%	4.8%	3.9%	8.2%	8.3%	10.4%	1-Oct-1999
Average Net Exposure	26.4%	34.6%	70.2%	76.1%	77.9%	81.9%	75.5%	72.2%	

### Growth of \$10,000



### Commentary

The K2 Australian Absolute Return Fund returned 0.1% for the month of January while the All Ordinaries Accumulation Index returned 4.0%.

The Fund ended the month with 37% net equity exposure, up +13% from the previous month. Sector exposure is dominated by Financials, Basic Materials and Consumer Staple, while Utilities, Technology and Telcos have a very small representation.

The All Ordinaries Index experienced a broad based rally to start the new year, delivering its best January return since 2013, with almost 10% of companies returning greater than 15% for the month. Aristocrat Leisure (ALL), a recent addition to the portfolio and top contributor to the Fund's performance for the month, offers a strong growth profile driven by their market leading position. Post the recent sell-off, ALL was trading on a PE multiple not seen since 2016. Long term holding, Medical Developments, was a leading detractor in January. We remain positive on the company's outlook, given the opportunity to roll out their 'green whistle' product across the globe.

We maintain our cautious outlook for the Australian economy and expect the upcoming reporting season to highlight the difficult operating environment, particularly business trading conditions over the past three months. There has been over 100 listed companies deliver profit warnings this financial year, and accordingly, earnings growth expectations have almost halved over the past three months, to sit at +4.3% for Financial Year 2019. While valuations are reflecting this below trend growth, we are concerned that the recent raft of weak economic data flows through into increased unemployment, particularly across the consumer facing and housing construction sectors. In particular, ANZ job ads for January were 3.7% lower than last year; the biggest decline since 2014. This sharp decrease is reminiscent of 1989, 1995, 2001 and 2008.

Top 5 Stock Holdings	Current	Monthly Move
Cedar Woods Properties Ltd	2.9%	-0.1%
Metlifecare Ltd	2.8%	0.0%
RIO Tinto Ltd	2.2%	+0.2%
Flight Centre Travel Group Ltd	2.0%	+2.0%
Nine Entertainment Co Holdin	1.9%	+1.9%

Month End Exposures	Current	Monthly Move
Communication Services	1.9%	+1.9%
Consumer	6.0%	+3.6%
Energy	2.0%	+1.6%
Financials	9.5%	+1.1%
Health Care	4.8%	-1.1%
Industrials	1.9%	+1.1%
Information Technology	1.5%	+0.2%
Materials	8.7%	+2.2%
Real Estate	2.9%	-0.1%
SHORTS	-2.5%	+1.6%
Number of Positions	42	+10
Gross Equity Exposure	41.7%	+9.1%
Cash Weighting	63.3%	-12.2%
Net Equity Exposure	36.7%	+12.2%

Fund Characteristics	
FUM	AUD \$197m
Portfolio Managers	Campbell Neal, David Poppenbeek, Josh Kitchen and Nicholas Leitl
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

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