

# K2 Australian Fund

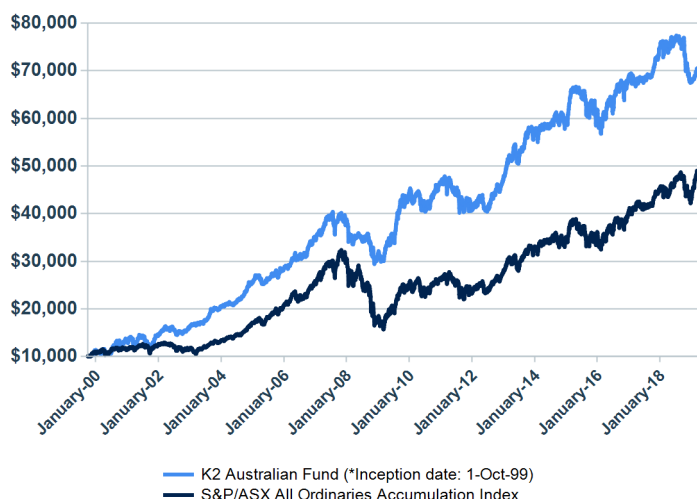
## 31 March 2019



The K2 Australian 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 Funds' mandate allows it to actively manage its net market exposure – utilising both cash and shorts to help protect clients' capital.

	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)	0.2%	2.7%	-5.3%	4.7%	3.6%	8.0%	8.4%	10.5%	1-Oct-1999
Average Net Exposure	57.5%	43.7%	65.3%	75.2%	77.0%	81.9%	75.4%	72.1%	

### Growth of \$10,000



### Commentary

The K2 Australian Fund returned 0.2% for the month of March.

During the month global bond yields contracted. Central bankers collectively embraced the narrative that monetary policy could be eased to combat economic stagnation. The Australian 10 year bond yield finished the month at 1.78%; the lowest yield since Federation. Infrastructure companies and REIT's rose 3% and 4% respectively in March as investors sought long duration assets. Interestingly, despite flat commodity prices, resource companies also rose 3% for the month. Overall, the ASX All Ordinaries Accumulation Index increased 0.7%.

Medical Developments and JB Hi-Fi were the Fund's best positive contributors for the month, while financial companies, despite an underweight position, were the largest detractor to performance. The Fund's holdings in ANZ and Westpac were underperformers falling 7% and 4% respectively for the month. Australian banks continue to be impacted by customer remediation costs following the Royal Commission. In addition investors are growing wary about the collateral damage associated with the continued decline in domestic residential property prices. Although Australia's employment lead indicators continue to erode, we believe that Australian banks are becoming more appropriately priced relative to the sombre profit projections. We are gradually adding to our positions.

Top 5 Stock Holdings	Current	Monthly Move
Westpac Banking Corp	4.0%	+0.1%
Macquarie Group Ltd	3.3%	+0.1%
RIO Tinto Ltd	3.3%	+0.2%
BHP Group Ltd	3.2%	+0.6%
JB Hi-Fi Ltd	3.1%	+0.5%

The Fund's net exposure for the month averaged 57.5%; long and short exposure was 58.8% and 1.3% respectively. We are wary about the profitability outlook for Australian listed companies. Domestic economic activity is slowing, corporate operating costs are tending to rise and bureaucratic interference is becoming more frequent. In addition we believe that, after a decade of asset price appreciation, valuation metrics should gradually taper. Lower valuation multiples and fading profits do not normally equate to strong equity market gains.

Month End Exposures	Current	Monthly Move
Communication Services	3.7%	+0.2%
Consumer	10.6%	+0.3%
Energy	1.7%	+0.2%
Financials	18.4%	+1.9%
Health Care	5.6%	+0.6%
Industrials	5.0%	+0.9%
Information Technology	1.4%	+0.2%
Materials	12.3%	+1.5%
Real Estate	2.3%	-1.9%
SHORTS	-0.7%	+1.4%
Number of Positions	45	0
Gross Equity Exposure	61.6%	+2.4%
Cash Weighting	39.8%	-5.1%
Net Equity Exposure	60.2%	+5.1%

### Fund Characteristics

FUM	AUD \$190m
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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## K2 Australian 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	
1999/00				1.9	2.0	9.5	-3.9	-2.6	5.6	-4.0	-1.9	2.4	8.5	16.0	52.0%	-12.8%	
2000/01	13.1	6.8	-3.1	0.1	4.5	0.9	4.5	-2.9	-11.9	13.0	5.2	0.5	32.2	8.8	27.7%	-16.7%	
2001/02	-7.9	-4.8	-5.4	8.7	11.5	1.8	3.9	3.5	-0.2	-0.4	2.7	-2.7	9.5	-4.5	32.1%	-14.6%	
2002/03	-6.3	3.6	-0.9	1.7	1.6	4.3	1.8	1.2	-0.2	2.2	0.7	1.5	11.2	-1.1	51.6%	-14.4%	
2003/04	3.7	7.0	1.6	2.5	-1.2	2.9	0.4	1.4	0.5	-0.1	0.3	2.2	23.2	22.4	36.0%	-3.7%	
2004/05	3.1	1.4	4.2	4.5	3.7	1.4	3.8	0.3	-2.0	-3.4	0.8	3.2	22.6	24.7	26.9%	-5.2%	
2005/06	1.3	0.7	3.9	-3.2	3.7	1.4	1.7	0.5	3.5	1.9	-0.4	2.0	18.3	24.2	27.6%	-3.9%	
2006/07	-0.9	2.3	1.5	5.8	0.4	3.0	1.0	0.5	3.0	2.7	3.5	0.2	25.3	30.3	32.2%	-4.9%	
2007/08	-0.6	-1.5	2.6	0.9	-1.9	-0.3	-9.3	-0.4	-1.5	1.6	0.9	-2.3	-11.6	-12.1	51.1%	-8.2%	
2008/09	0.3	2.8	-5.8	-5.6	-3.8	3.4	-1.6	-1.2	5.7	4.7	0.9	2.9	1.9	-22.1	46.6%	-3.4%	
2009/10	7.2	7.4	5.1	-1.0	1.8	3.5	-4.0	-0.2	3.5	-0.6	-5.7	-0.9	16.3	13.8	10.3%	-2.6%	
2010/11	2.1	-1.1	4.7	3.3	0.1	3.4	-0.5	1.9	0.0	-1.6	-1.7	-0.8	10.0	12.2	14.1%	-4.0%	
2011/12	-3.4	-0.6	-4.8	3.7	-2.8	-2.1	3.1	1.9	1.9	-0.2	-5.5	-0.4	-9.2	-7.0	23.3%	-3.5%	
2012/13	3.3	2.9	1.2	3.6	0.1	3.1	4.5	4.5	0.3	4.5	-2.8	-1.4	26.1	20.7	7.2%	-0.2%	
2013/14	3.3	1.3	4.6	2.5	-0.3	0.1	-2.3	2.2	1.7	-0.1	0.0	-0.9	12.5	17.6	11.7%	0.0%	
2014/15	2.8	1.6	-2.0	2.0	-0.8	-0.7	3.5	6.2	0.4	-0.3	1.2	-3.0	11.0	5.7	18.5%	-0.3%	
2015/16	1.6	-4.1	-2.7	3.4	-0.6	-1.7	-3.8	-1.4	4.4	3.1	2.2	-3.1	-3.2	2.0	19.8%	-0.3%	
2016/17	5.1	1.3	1.3	-1.4	0.0	2.9	0.2	-1.6	1.0	-0.1	0.1	0.0	9.0	13.1	16.7%	-1.5%	
2017/18	1.0	0.3	0.5	2.9	1.8	3.2	0.8	0.7	-2.7	1.7	0.7	1.6	13.1	13.7	21.6%	-3.7%	
2018/19	0.4	-1.4	0.1	-7.2	-2.4	-1.2	0.1	2.4	0.2				-9.0	3.0	41.3%	-3.9%	
													Incept	600.7	384.7		
													Incept	10.5%pa	8.4%pa	28.4%	-5.4%

(1) S&P/ASX All Ordinaries Accumulation Index

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