

K2 Australian Fund

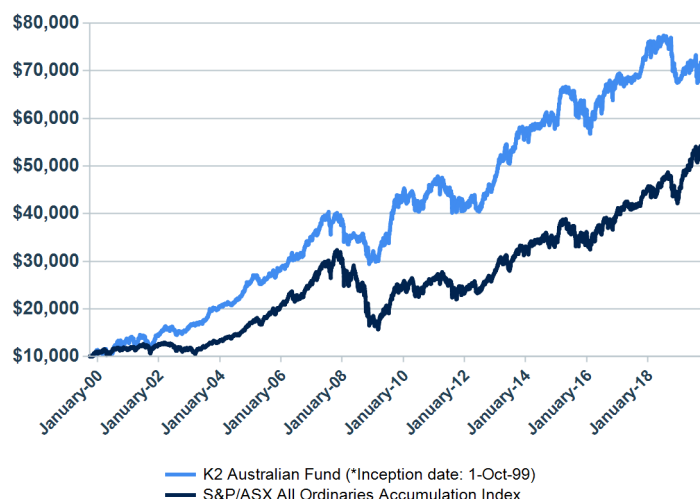
30 September 2019



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 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	1 Year	3 Years (%pa)	5 Years (%pa)	10 Years (%pa)	15 Years (%pa)	Inception (%pa)	Inception Date
Performance (Net of Fees)	3.6%	1.0%	-5.9%	2.2%	3.8%	5.3%	7.7%	10.4%	1-Oct-1999
Average Net Exposure	83.4%	78.5%	59.8%	72.9%	76.7%	81.5%	75.6%	72.1%	

Growth of \$10,000



Commentary

The K2 Australian Fund returned 3.6% for September.

The Governor of the Reserve Bank of Australia (RBA), Philip Lowe, gave a speech during the month titled "An Economic Update". Lowe stated that, despite expectations that economic growth is expected to pick up, further interest rate cuts may be required. He outlined Australia's strong fundamental position but exhibited frustration with businesses' lack of confidence to expand, invest, innovate and hire. The All Ordinaries Accumulation Index rose 2.1% for the month.

The Fund's Financial holdings performed well for the month. Macquarie Group, Westpac Bank and ANZ Bank all rose by more than 5%. Australia housing prices have now improved for three consecutive months and there is some emerging confidence that mortgage growth may start to pick up soon. We are however surprised that Australian banks have yet to pass on lower interest rates to small businesses. Small business borrowing costs are 160% higher than those of large businesses and this is holding back commercial lending growth.

The Fund's holding in Webjet was the largest detractor to performance. During the month one of Webjet's customers, Thomas Cook, entered Compulsory Liquidation. Thomas Cook's contribution to Webjet's EBITDA is less than 5% however Webjet's share price has fallen 20% over the past quarter. We believe that Webjet is oversold and we continue to hold a position in the company.

The Fund's net exposure for the month averaged 83.4%; long and short exposure averaged 83.9% and 0.5% respectively. We are of the view that Australia will start to attract global capital. Australia's national debt position is significantly lower than average, there is government stability and the currency is cheap. When compared to developed economic peers, Australia's expected GDP growth is stronger, company ROE is better and the dividend yield is higher.

Top 5 Stock Holdings	Current	Monthly Move
Macquarie Group Ltd	10.0%	+0.5%
Westpac Banking Corp	8.1%	+0.8%
BHP Group Ltd	6.0%	+2.7%
Nine Entertainment Co Holdings	5.7%	+0.9%
Seven Group Holdings Ltd	5.6%	+1.5%

Month End Exposures	Current	Monthly Move
Communication Services	5.7%	-2.1%
Consumer	16.7%	+4.2%
Energy	2.2%	-1.1%
Financials	38.2%	+3.0%
Health Care	6.9%	+2.2%
Industrials	9.6%	+2.9%
Materials	17.2%	+3.8%
Real Estate	0.9%	-1.0%
SHORTS	-1.0%	+0.1%
Number of Positions	39	-3
Gross Equity Exposure	98.4%	+11.8%
Cash Weighting	3.6%	-11.9%
Net Equity Exposure	96.4%	+11.9%

Fund Characteristics

FUM	AUD \$54m
Portfolio Managers	Campbell Neal, David Poppenbeek and Josh Kitchen
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	1.4	0.3	-0.3	-7.6	11.0	39.3%	-3.3%	
2019/20	2.2	-4.6	3.6										1.0	2.8	21.5%	-1.6%	
													Incept	618.1	437.4		
													Incept	10.4%pa	8.8%pa	28.0%	-5.2%

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

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