

K2 Australian Fund

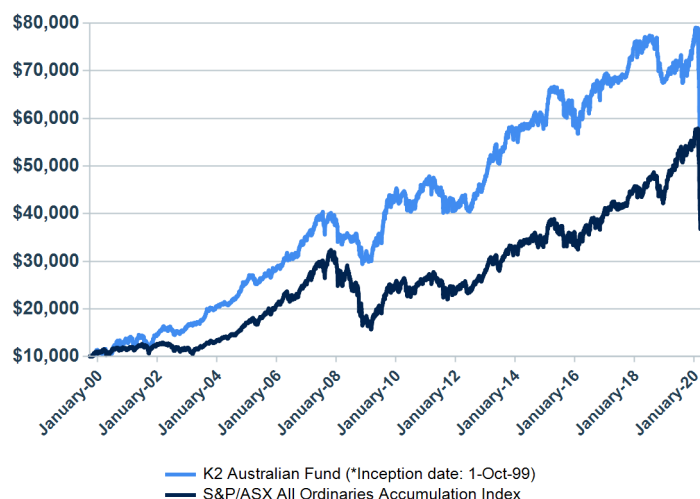
31 March 2020



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)	-26.2%	-31.3%	-26.0%	-8.7%	-4.7%	1.6%	4.6%	8.4%	1-Oct-1999
Average Net Exposure	87.5%	87.9%	80.1%	71.9%	76.6%	81.3%	75.7%	72.4%	

Growth of \$10,000



Commentary

The K2 Australian Fund returned -26.2% for the month of March.

In 21 years of asset management K2 has never experienced a month as volatile as March 2020. During the month the average daily decline for the ASX200 Index from intra-day high to intra-day low was 6.6%. For perspective the worst month during the GFC (Oct'08) saw an average intra-day decline of 3.9%.

The cause of increased volatility stemmed from the rapid expansion of the COVID-19 virus outbreak which coincided with a collapse in the oil price. The fear exhibited by market participants during March 2020 was more extreme than the period between September 2008 to March 2009 when the entire global payment system was on the brink of collapse. Today the world is in hibernation. The banking system has had a decade to prepare for these very conditions and fiscal support has been widespread. We believe that today's investment opportunities are as attractive as those that were presented to the Fund during the 1st quarter of 2009. The Fund subsequently delivered a 35% return over the following 12 months.

The best performing holding for the Fund was a short position in MyState (MYS) which fell 22% for the month. MYS is Tasmanian based financial services company that had aggressively expanded in QLD, NSW and VIC. At 15x profits we viewed MYS as being way too expensive relative to the risk of pursuing growth in the future. The short position was closed out during the month.

The worst performers for the Fund were Macquarie Group (MQG), Seven Group (SVW) and Summerset (SUM NZ). MQG's weakness partly reflected its exposure to airline and motor vehicle leasing businesses. SVW's exposure to potentially lower levels of mining and infrastructure activity drove its share price lower. SUM is a NZ based operator and developer of retirement villages whose development aspirations will be curtailed and there is risk that COVID-19 could emerge within one of its facilities. The Fund's net exposure for the month averaged 88.4%.

Top 5 Stock Holdings	Current	Monthly Move
RIO Tinto Ltd	9.8%	+3.5%
BHP Group Ltd	9.8%	+3.1%
Macquarie Group Ltd	7.9%	-2.2%
Netwealth Group Ltd	5.7%	+1.8%
Summerset Group Holdings Ltd	5.0%	0.0%

Month End Exposures	Current	Monthly Move
Communication Services	0.8%	-0.2%
Consumer	4.3%	-10.3%
Financials	34.1%	-3.8%
Health Care	6.9%	-1.7%
Industrials	12.1%	+0.7%
Materials	24.7%	+9.7%
Real Estate	1.8%	+0.2%
SHORTS	-1.0%	+1.1%
Number of Positions	32	-6
Gross Equity Exposure	85.8%	-8.1%
Cash Weighting	16.3%	+5.9%
Net Equity Exposure	83.7%	-5.9%

Fund Characteristics

FUM	AUD \$20m
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	4.0	2.1	2.7	-9.4	-26.2				-27.1	-21.2	15.4%	-1.8%	
													Incept	418.5	311.9		
													Incept	8.4%pa	7.1%pa	27.7%	-5.2%

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

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