

# K2 Australian Fund

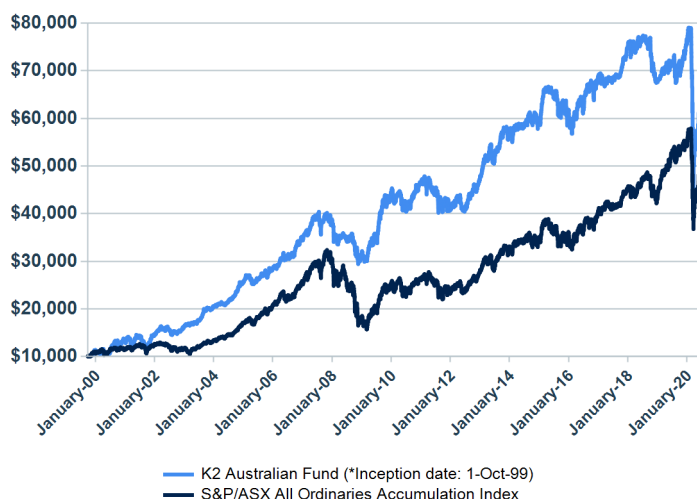
## 31 May 2020



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)	5.7%	-13.6%	-14.8%	-3.7%	-1.8%	3.9%	5.9%	9.1%	1-Oct-1999
Average Net Exposure	94.2%	88.7%	83.9%	73.8%	77.3%	81.3%	76.2%	72.6%	

### Growth of \$10,000



### Commentary

The K2 Australian Fund returned 5.71% for the month of May.

Australia is gradually moving out of the COVID-19 hibernation phase. When compared to other developed economic peers Australia's daily Covid-19 case increases continue to be relatively benign. Australia has conducted 1.37million COVID-19 tests yet there are less than 500 active cases in the country. Given this, activity restrictions continue to be relaxed and economic Armageddon looks improbable. Expectations that Australia's unemployment rate will surpass 10% may be too pessimistic; many workers who have been laid off will not be actively looking for another job and therefore will not be counted as unemployed. In addition, on the 22nd of May, Australian Treasury announced that the number of employees likely to be covered under the JobKeeper program would be 3.5 million or 40% less than original estimates. As a result, the cost of the JobKeeper program would be \$60 billion below initial expectations.

The best performing holdings for the Fund were Macquarie Group (MQG) and resource heavyweights BHP and RIO which all rose 7% during the month. Netwealth Group (NWL) also performed well rising 9%. During the month Macquarie reported a full year profit of \$2.7 billion. Despite impairment charges of \$1.0 billion, Macquarie still paid a final dividend of \$1.80 per share. Macquarie has \$7 billion of surplus capital and is well positioned to take advantage of any market dislocations. BHP and RIO are benefitting from elevated iron-ore prices; China demand has recommenced whereas supply from Brazil could suffer COVID-19 related constraints. NWL should be well positioned to potentially cede market share away from sector leader Westpac who announced that it was conducting a strategic review of its platform business.

The Fund's net exposure for the month averaged 94.2%; long and short exposure was 95.5% and 1.2% respectively. We believe that earnings sentiment will improve over the months ahead.

Top 5 Stock Holdings	Current	Monthly Move
BHP Group Ltd	9.6%	-0.4%
Macquarie Group Ltd	9.3%	+0.7%
RIO Tinto Ltd	8.9%	-0.4%
Seven Group Holdings Ltd	5.4%	-0.3%
Netwealth Group Ltd	4.9%	-0.1%

Month End Exposures	Current	Monthly Move
Communication Services	1.8%	+1.0%
Consumer	7.9%	+1.0%
Energy	0.4%	+0.2%
Financials	33.1%	+2.6%
Health Care	6.1%	-1.2%
Industrials	11.8%	-1.1%
Materials	26.7%	-0.7%
Real Estate	4.0%	-0.8%
Number of Positions	42	+4
Gross Equity Exposure	91.8%	-2.8%
Cash Weighting	8.2%	-4.9%
Net Equity Exposure	91.8%	+4.9%

### Fund Characteristics

FUM	AUD \$24m
Portfolio Managers	Campbell Neal, 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

**George Boubouras**  
 Head of Research  
 03 9691 6191  
 invest@k2am.com.au

## 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	10.8	5.7		-14.6	-9.3	14.6%	-1.8%	
													Incept	507.5	373.9		
													Incept	9.1%pa	7.8%pa	27.7%	-5.2%

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

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