

K2 Australian Fund

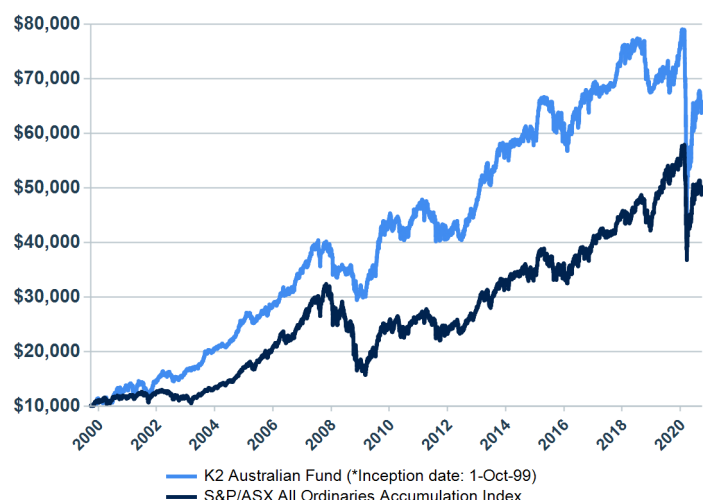
30 September 2020



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	Inception (%pa)	Inception Date
Performance (Net of Fees)	-3.9%	9.3%	1-Oct-1999
Average Net Exposure	98.1%	73.0%	

Growth of \$10,000



Top 5 Stock Holdings	Current	Monthly Move
BHP Group Ltd	8.7%	-0.4%
Macquarie Group Ltd	8.3%	+0.1%
RIO Tinto Ltd	7.9%	-0.2%
Seven Group Holdings Ltd	7.0%	+0.1%
Austal Ltd	4.7%	0.0%

Month End Exposures	Current	Monthly Move
Consumer	6.9%	0.0%
Financials	37.2%	+1.9%
Health Care	8.9%	+0.9%
Industrials	13.3%	-0.2%
Materials	28.8%	-1.2%
Real Estate	1.8%	-1.3%
SHORTS	-1.0%	-0.5%
Number of Positions	35	-3
Gross Equity Exposure	97.9%	-1.2%
Cash Weighting	4.2%	+2.1%
Net Equity Exposure	95.8%	-2.1%

George Boubouras

Head of Research
invest@k2am.com.au

Commentary

The K2 Australian Fund returned -3.9% for the month of September. The fund has performed strongly over the past six months and has returned +25% since 31 March, significantly outperforming the benchmark return of 19%. The combination of good stock selection and investing available excess cash early in the new cycle that began in March following the unprecedented coordinated policy stimulus, have contributed to the strong excess return of +6% vs benchmark for investors in the past 6 months.

At present economists expected the Australian economy to expand by just 1% over the year ahead which is materially slower than the 1.8% forecast growth for the Developed Economies. From a top-down perspective it is easy to see why the consensus view is that restricted citizen movements must equate to severely constrained economic activity. Australia's large service industry is on the front line of this economic hardship, however, as many listed retailers have demonstrated, a pivot towards online service provision can be beneficial. We believe there is a possibility that households have been less impacted by working from home and that productivity may not be as dire as first thought. Throughout this COVID-19 pandemic Australian households and businesses will receive fiscal stimulus that is approaching 10% of last year's GDP. Clearly savings rates are increasing but we feel that the gradual re-emergence from lock-down before year-end should ensure that household and business spending expands and is predominantly domestically orientated. The Fund continues to be optimistically positioned.

The best performing holdings for the Fund were Netwealth (NWL), Cedar Woods (CWP) and James Hardie (JHX) which rose 8%, 8% and 7% respectively. NWL's main competitors in the Australian platform market continue to be distracted and accordingly it is highly likely that share will increasingly cede to specialist providers. CWP is a national property developer with strong exposure to the improving WA market. We believe that residential housing construction will improve; government grants and low interest rates should stimulate more activity from first time home buyers. This thematic is also evident in the US where JHX has significant exposure.

The Fund's net exposure for the month averaged 98.1%. The median holding for the Fund has favourable characteristics; using consensus forecasts for the year ahead the PE is 15.2x, ROE is 10.8%, dividend yield is 3.7% and EPS growth rate is +17.2%. The market capitalisation of the median holding for the Fund is \$5.6 billion.

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

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	2.2	-12.7	-7.2	13.6%	-1.6%
2020/21	3.1	5.1	-3.9										4.2	1.1	3.0%	-0.1%
												Incept	546.4	390.3		
												Incept	9.3%pa	7.9%pa	26.5%	-5.0%

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

DISCLAIMER: Returns are shown after fees (including performance fees) and expenses have been deducted and assume the reinvestment of income distributions. Please note that past performance is not a reliable indicator of future performance. The information contained in this document is produced by K2 Asset Management Ltd ("K2") in good faith, but does not constitute any representation or offer by K2. It is subject to change without notice, and is intended as general information only and is not complete or definitive. K2 does not accept any responsibility, and disclaims any liability whatsoever for loss caused to any party by reliance on the information in this document. A product disclosure statement for general information on any Fund referred to in this document can be obtained at www.k2am.com.au or by contacting K2. You should read the product disclosure statement and consider whether the product is appropriate for you before making a decision to acquire or continue to hold an interest in a Fund. Fees referred to in this document are inclusive of GST and RITC and do not include expense recoveries.