

K2 Australian Fund

30 June 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
Gross Performance	-0.2%	1.9%	-6.2%	7.0%	6.8%	10.4%	12.1%	15.5%	1-Oct-1999
Average Net Exposure	66.6%	66.6%	60.7%	74.1%	76.8%	81.7%	75.5%	72.0%	

Top 10 Holdings	Weight
Macquarie Bank	7.4%
Westpac Bank	6.6%
Nine Entertainment	4.5%
BHP Billiton Limited	3.7%
RIO Tinto	3.2%
Suncorp-Metway Limited	3.0%
Seven Group Holdings Ltd	2.8%
JB Hi-Fi Limited	2.7%
Medical Developments	2.3%
Amcor	2.2%
Top 5 Contributors	BSPTS
Westpac Bank	60
Aristocrat Leisure	43
ANZ	34
BHP Billiton Limited	31
Nine Entertainment	26
Top 5 Detractors	BSPTS
Metlifecare Ltd	(38)
Aksesstoday	(27)
Worley Group	(23)
Nufarm Limited	(18)
Downer Edi Ltd	(16)
Exposures/Characteristics	Value
Communication Services	6.7%
Consumer	9.4%
Financials	27.2%
Health Care	2.8%
Industrials	3.8%
Materials	11.8%
Real Estate	3.2%
Short EXPOSURE	-3.0%
Gross Equity EXPOSURE	68.1%
Cash EXPOSURE	38.0%
Net Equity EXPOSURE	62.0%
Number of Positions	40
Alpha (%pa)	8.8%
Beta	0.75
Upside Capture Participation	90.8%
Downside Capture Participation	75.3%

Commentary

The K2 Australian Fund returned 1.9% for the quarter to June. During the quarter the Reserve Bank of Australia (RBA) reduced the official cash rate to 1.25%; a reduction of 0.25%. The RBA sighted the disruptive impact that trade disputes were having on global economic activity. In addition the RBA has seemingly found religion regarding spare capacity in the labour market. The RBA has ratcheted down its estimate of the unemployment rate that would be feasible for an inflation target of 2%; it was previously 5% but has now been revised down to 4.5%. Australia's 2 year bond yield subsequently dropped below 1% on the expectation that more rate cuts were imminent. The ASX All Ordinaries Accumulation Index rose 7.8% for the quarter as market participants speculated that the convergence in the yield differential between equities and bonds would continue.

The Fund's holdings in BHP, Rio Tinto, and Coronado Global Resources rose 7%, 6% and 26% respectively for the quarter as investors continued to embrace supply constrained resource companies. Aristocrat Leisure rose 25% for the quarter and was also one of the Fund's best performers following the release of its first half profit that was ahead of market expectations. Westpac Bank and ANZ Bank were also strong performance contributors. The largest detractor to the Fund's performance for the quarter was NZ retirement village operator Metlifecare; the share price declined 11% as housing market conditions in Auckland continued to retrace and the position was subsequently sold. A number of Australian industrial companies revised earnings lower during the quarter. The Fund's holding in Worley Parsons, Nufarm, Caltex and Star Entertainment all experienced downgrades and detracted from performance.

The Fund averaged net exposure of 66.5% for the quarter; long and short exposure was 68.0% and 1.5% respectively. We expect domestic economic conditions to remain fragile near term; political paralysis was very evident during the quarter. However we believe that political stability, policy rationality, taxation benefits and interest rate cuts will all contribute to a more balanced investing climate in FY2020.

The Fund's fundamental characteristics are attractive relative to the broader market. The Fund's median holding is 30% larger, has Earning per Share (EPS) growth next year that is 2.3% faster and a dividend yield that is 100bps higher than the ASX 200. Finally, the Fund's median holding displays similar Return on Equity (ROE) and fiscal responsibility measures to the ASX 200 yet trades on a Price to Earnings (PE) ratio on next year's Expected EPS of just 12.9x, which is 25% cheaper than the market.

Fund Profile

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
FUM	AUD \$138m
Remaining Capacity	AUD \$862m
Number of Stocks	Up to 80
Investment Horizon	Long Term
Style Bias	Variable Beta
Market Capitalisation Bias	Agnostic

K2 Australian Fund Gross 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				1.4	2.8	10.6	-3.4	-1.8	5.8	-3.0	-2.8	3.6	13.1	16.0	52.0%	-12.8%	
2000/01	15.3	8.0	2.9	1.5	5.1	0.3	5.4	-2.6	-10.9	14.1	6.4	1.7	54.8	8.8	27.7%	-16.7%	
2001/02	-6.8	-4.3	-4.7	8.8	12.0	1.9	5.5	4.6	0.2	-0.1	3.5	-3.2	16.7	-4.5	32.1%	-14.6%	
2002/03	-6.1	4.3	-0.8	1.8	2.0	5.1	2.6	1.7	0.0	3.0	1.0	2.1	17.6	-1.1	51.6%	-14.4%	
2003/04	4.8	8.5	2.3	3.0	-1.2	3.7	0.9	1.6	0.8	0.0	0.5	2.7	31.0	22.4	36.0%	-3.7%	
2004/05	3.9	1.9	5.3	5.6	4.7	1.8	4.7	0.6	-2.4	-4.0	0.9	4.2	30.1	24.7	26.9%	-5.2%	
2005/06	1.8	1.1	5.1	-3.9	4.7	1.9	2.3	0.8	4.4	2.5	-0.4	2.5	25.1	24.2	27.6%	-3.9%	
2006/07	-0.7	2.8	2.1	7.4	0.6	3.9	1.4	0.8	3.7	3.4	4.3	0.3	34.3	30.3	32.2%	-4.9%	
2007/08	-0.7	-1.3	2.6	1.1	-1.8	-0.3	-9.2	-0.3	-1.3	1.7	1.2	-2.2	-10.5	-12.1	51.1%	-8.2%	
2008/09	0.4	3.1	-5.7	-5.5	-3.6	3.5	-1.5	-1.0	6.1	5.0	1.1	3.1	4.2	-22.1	46.6%	-3.4%	
2009/10	7.7	8.9	6.5	-1.1	2.3	4.4	-4.8	-0.2	4.4	-0.6	-6.9	-1.4	19.5	13.8	10.3%	-2.6%	
2010/11	2.6	-1.2	5.7	4.1	0.2	4.3	-0.6	2.6	-0.3	-1.5	-1.6	-0.7	14.4	12.2	14.1%	-4.0%	
2011/12	-3.2	-0.5	-4.7	3.8	-2.6	-2.0	3.2	2.1	2.1	-0.1	-5.5	-0.4	-8.0	-7.0	23.3%	-3.5%	
2012/13	3.4	3.3	1.4	4.1	0.2	3.5	5.7	5.7	0.5	5.7	-3.4	-1.6	32.0	20.7	7.2%	-0.2%	
2013/14	4.2	1.8	5.8	3.2	-0.3	0.2	-2.2	2.3	2.2	-0.4	0.1	-0.8	17.2	17.6	11.7%	0.0%	
2014/15	3.6	2.1	-2.4	2.6	-0.9	-0.9	4.5	7.9	0.6	-0.3	1.6	-3.5	15.2	5.7	18.5%	-0.3%	
2015/16	2.1	-4.4	-2.6	3.6	-0.5	-1.6	-3.6	-1.3	4.5	3.3	2.4	-3.0	-1.7	2.0	19.8%	-0.3%	
2016/17	5.8	1.7	1.7	-1.6	0.0	3.8	0.3	-1.5	1.1	0.0	0.2	0.1	12.2	13.1	16.7%	-1.5%	
2017/18	1.2	0.3	0.6	3.7	2.1	4.0	1.0	1.0	-2.9	1.9	0.8	1.7	16.5	13.7	21.6%	-3.7%	
2018/19	0.5	-1.3	0.4	-7.2	-2.3	-1.0	0.2	2.5	0.3	1.6	0.4	-0.2	-6.2	11.0	39.3%	-3.3%	
													Incept	1634.9	422.6		
													Incept	15.5%pa	8.7%pa	28.3%	-5.4%

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

DISCLAIMER: Returns are shown before 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 or information memorandum 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.