

# K2 Australian Fund

## 30 April 2023

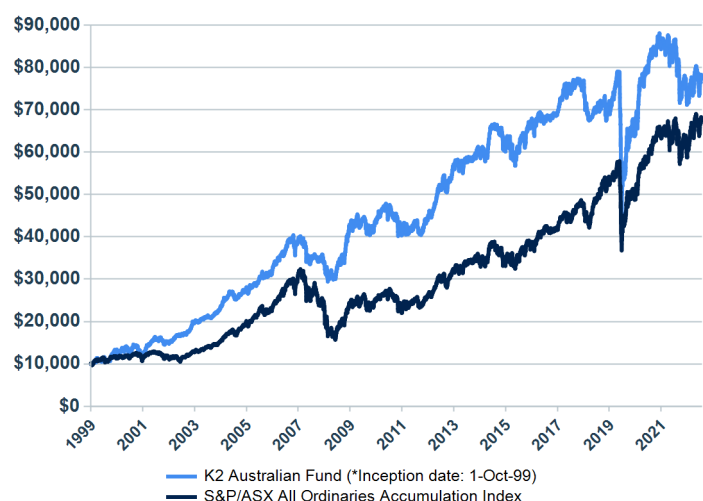


The K2 Australian Fund is an Absolute Return equities fund. The fund is index-unaware, aiming to produce positive absolute returns over the long term with a capital preservation mindset. The Fund's mandate allows it to actively manage its net market exposure – utilising both cash and shorts to help protect clients' capital.

|                           | 1 Month | Unit Price | Inception (%pa) |
|---------------------------|---------|------------|-----------------|
| Performance (Net of Fees) | 1.38%   | 135.31     | 9.07%           |

Refer below detailed performance data matrix

### Growth of \$10,000



| Top 5 Stock Holdings      | Current | Monthly Move |
|---------------------------|---------|--------------|
| Macquarie Group Ltd       | 10.1%   | +0.3%        |
| Seven Group Holdings Ltd  | 8.7%    | +0.2%        |
| BHP Group Ltd             | 7.4%    | -0.5%        |
| Woodside Energy Group Ltd | 7.2%    | +1.0%        |
| Kina Securities Ltd       | 6.2%    | -0.2%        |

| Market Capitalisation Coverage | Current | Monthly Move |
|--------------------------------|---------|--------------|
| Large Caps >=AUD\$7.5b         | 59.8%   | +1.4%        |
| Mid Caps >=AUD\$2b < AUD\$7.5b | 10.0%   | -3.0%        |
| Small Caps < AUD\$2b           | 23.4%   | -0.5%        |

| Month End Exposures    | Current | Monthly Move |
|------------------------|---------|--------------|
| Communication Services | 2.8%    | +0.1%        |
| Consumer               | 7.5%    | +0.2%        |
| Energy                 | 9.0%    | +1.0%        |
| Financials/Real Estate | 25.9%   | -7.1%        |
| Health Care            | 6.3%    | 0.0%         |
| Industrials            | 17.0%   | +2.1%        |
| Materials              | 24.5%   | +1.6%        |
| Number of Positions    | 24      | -4           |
| Gross Equity Exposure  | 93.1%   | -2.1%        |
| Cash Weighting         | 6.9%    | +2.1%        |
| Net Equity Exposure    | 93.1%   | -2.1%        |

### Commentary

The K2 Australian Fund returned 1.38% for the month.

The Australian economy is expected to deliver meagre economic advancement over the coming year; consensus estimates are that Australia's GDP growth will be just 1.7%. It is also likely that these estimates will continue to fade. The last time economists were so bearish about Australia's economic fortunes, excluding the COVID phase, was during the Global Financial Crisis. It is also worth noting that today Australia's 2 year bond yield is 3.16% whereas the official cash rate is 3.85%. The last time the inversion was so extreme was back in September 2012. Inflation expectations back in 2012 were moderate so unsurprisingly, the Reserve Bank of Australia (RBA) started easing monetary policy. Unfortunately, today we are not so lucky. The inflation rate for the year ahead is expected to be 4.7%. Hence, although economic conditions are sanguine, the RBA is unlikely to aggressively reduce interest rates. That said, we also believe that the RBA will not be in a rush to tighten monetary policy much further. The labour market is finally showing some early signs of rebalancing; the number job advertisements are now well below last years' level and this is typically a precursor to a lift in the unemployment rate. It would appear to us that a soft landing is still probable in Australia.

We are also starting to see some contraction in the PE dispersion for the ASX 200. The PE of the cheapest top quartile company is currently 26x whereas during the COVID phase it averaged 30x and pre COVID the average was 17x. The PE of the cheapest top quartile company is currently 15 points higher than the most expensive bottom quartile company. During COVID, this dispersion averaged 17 points whereas pre-COVID the average had been 10 points. There is finally competition for growth so the dispersion in valuation metrics should continue to contract.

The best performing holdings for the Fund this month were Northern Star Resources (NST), Macquarie Group (MQG) and Seven Group (SVW). Detractors to performance were BHP Group (BHP), Rio Tinto (RIO) and Kina Securities (KSL). During the month the Fund acquired a new position in Johns Lyng Group (JLG). The Funds' holding in Charter Hall (CHC) was sold. The median holding of the Fund has a market capitalisation of \$8.7 billion and, using expectations for the year ahead, has a PE of 11.6x, an ROE of 16.2% and a dividend yield of 3.4%.

### Fund Characteristics

|                            |  |
|----------------------------|--|
| Portfolio Managers         | Campbell Neal, David Poppenbeek and Bill Laister   |
| Strategy                   | Australian and New Zealand Equities  |
| Objectives                 | To deliver consistent returns over the investment cycle with a focus on capital protection during periods of market declines |
| Return Target              | S&P/ASX 300 Accumulation Index + 3%pa  |
| Number of Stocks           | 25 to 50   |
| 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              |
| Investment Horizon         | 5 Years  |
| Style Bias                 | Growth At a Reasonable Price   |
| Market Capitalisation Bias | >\$7.5 billion   |

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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 |       |       |       | 1.90  | 2.00  | 9.51  | -3.92 | -2.58 | 5.57   | -3.95 | -1.93 | 2.44   | <b>8.53</b>   | 15.98             | 51.97%       | -12.83%       |               |
| 2000/01 | 13.14 | 6.79  | -3.07 | 0.14  | 4.50  | 0.91  | 4.53  | -2.88 | -11.90 | 13.03 | 5.25  | 0.47   | <b>32.19</b>  | 8.85              | 27.72%       | -16.68%       |               |
| 2001/02 | -7.85 | -4.82 | -5.35 | 8.66  | 11.51 | 1.84  | 3.93  | 3.54  | -0.16  | -0.36 | 2.66  | -2.71  | <b>9.54</b>   | -4.50             | 32.13%       | -14.57%       |               |
| 2002/03 | -6.33 | 3.62  | -0.93 | 1.69  | 1.62  | 4.28  | 1.80  | 1.23  | -0.17  | 2.20  | 0.66  | 1.45   | <b>11.23</b>  | -1.08             | 51.58%       | -14.43%       |               |
| 2003/04 | 3.72  | 6.97  | 1.59  | 2.45  | -1.19 | 2.93  | 0.44  | 1.39  | 0.54   | -0.07 | 0.32  | 2.16   | <b>23.16</b>  | 22.37             | 36.03%       | -3.74%        |               |
| 2004/05 | 3.07  | 1.39  | 4.18  | 4.46  | 3.68  | 1.38  | 3.83  | 0.32  | -2.04  | -3.41 | 0.79  | 3.22   | <b>22.57</b>  | 24.75             | 26.86%       | -5.18%        |               |
| 2005/06 | 1.34  | 0.74  | 3.91  | -3.22 | 3.74  | 1.40  | 1.72  | 0.52  | 3.51   | 1.91  | -0.43 | 2.03   | <b>18.33</b>  | 24.20             | 27.57%       | -3.95%        |               |
| 2006/07 | -0.88 | 2.28  | 1.53  | 5.78  | 0.42  | 2.98  | 1.03  | 0.51  | 3.03   | 2.67  | 3.46  | 0.16   | <b>25.35</b>  | 30.28             | 32.21%       | -4.92%        |               |
| 2007/08 | -0.61 | -1.48 | 2.56  | 0.91  | -1.90 | -0.29 | -9.27 | -0.39 | -1.46  | 1.58  | 0.91  | -2.27  | <b>-11.56</b> | -12.12            | 51.05%       | -8.23%        |               |
| 2008/09 | 0.26  | 2.84  | -5.78 | -5.61 | -3.76 | 3.37  | -1.65 | -1.16 | 5.75   | 4.72  | 0.91  | 2.86   | <b>1.94</b>   | -22.15            | 46.55%       | -3.37%        |               |
| 2009/10 | 7.17  | 7.41  | 5.13  | -0.98 | 1.75  | 3.51  | -4.00 | -0.23 | 3.46   | -0.58 | -5.67 | -0.85  | <b>16.30</b>  | 13.78             | 10.30%       | -2.62%        |               |
| 2010/11 | 2.10  | -1.10 | 4.72  | 3.27  | 0.07  | 3.41  | -0.49 | 1.92  | 0.00   | -1.59 | -1.73 | -0.77  | <b>9.99</b>   | 12.17             | 14.13%       | -3.98%        |               |
| 2011/12 | -3.41 | -0.59 | -4.76 | 3.69  | -2.82 | -2.13 | 3.08  | 1.91  | 1.94   | -0.20 | -5.47 | -0.37  | <b>-9.22</b>  | -7.04             | 23.28%       | -3.47%        |               |
| 2012/13 | 3.27  | 2.95  | 1.21  | 3.61  | 0.07  | 3.07  | 4.47  | 4.47  | 0.32   | 4.54  | -2.84 | -1.39  | <b>26.09</b>  | 20.67             | 7.24%        | -0.19%        |               |
| 2013/14 | 3.27  | 1.31  | 4.56  | 2.53  | -0.31 | 0.08  | -2.33 | 2.23  | 1.70   | -0.13 | -0.01 | -0.87  | <b>12.49</b>  | 17.64             | 11.71%       | -0.02%        |               |
| 2014/15 | 2.83  | 1.60  | -2.02 | 1.99  | -0.83 | -0.72 | 3.46  | 6.25  | 0.40   | -0.35 | 1.17  | -2.97  | <b>10.98</b>  | 5.67              | 18.55%       | -0.34%        |               |
| 2015/16 | 1.61  | -4.14 | -2.72 | 3.42  | -0.62 | -1.70 | -3.79 | -1.43 | 4.39   | 3.08  | 2.25  | -3.08  | <b>-3.16</b>  | 2.01              | 19.81%       | -0.29%        |               |
| 2016/17 | 5.14  | 1.29  | 1.25  | -1.40 | -0.03 | 2.94  | 0.23  | -1.56 | 1.00   | -0.07 | 0.07  | -0.02  | <b>8.99</b>   | 13.12             | 16.66%       | -1.52%        |               |
| 2017/18 | 1.00  | 0.26  | 0.50  | 2.87  | 1.80  | 3.25  | 0.79  | 0.73  | -2.72  | 1.74  | 0.68  | 1.58   | <b>13.08</b>  | 13.73             | 21.63%       | -3.71%        |               |
| 2018/19 | 0.39  | -1.40 | 0.11  | -7.18 | -2.45 | -1.17 | 0.06  | 2.43  | 0.17   | 1.41  | 0.34  | -0.29  | <b>-7.63</b>  | 11.04             | 39.30%       | -3.30%        |               |
| 2019/20 | 2.23  | -4.63 | 3.59  | -0.99 | 3.96  | 2.13  | 2.74  | -9.38 | -26.24 | 10.83 | 5.72  | 2.17   | <b>-12.70</b> | -7.21             | 13.58%       | -1.65%        |               |
| 2020/21 | 3.13  | 5.12  | -3.93 | 1.68  | 13.34 | 2.36  | -1.03 | 3.98  | 1.03   | 4.35  | 1.05  | 1.01   | <b>36.05</b>  | 30.24             | 2.29%        | -0.18%        |               |
| 2021/22 | 0.49  | 2.58  | -1.35 | -0.48 | -1.43 | 2.58  | -5.82 | 2.00  | 3.79   | -1.70 | -3.68 | -10.94 | <b>-13.98</b> | -7.44             | 1.14%        | -0.19%        |               |
| 2022/23 | 4.88  | 0.89  | -6.77 | 2.47  | 5.05  | -3.51 | 6.95  | -2.66 | -1.46  | 1.38  |       |        | <b>6.56</b>   | 15.61             | 4.95%        | -0.62%        |               |
|         |       |       |       |       |       |       |       |       |        |       |       |        | Incept.       | <b>674.05</b>     | 575.89       |               |               |
|         |       |       |       |       |       |       |       |       |        |       |       |        | Incept.       | <b>9.07%pa</b>    | 8.44%pa      | <b>24.51%</b> | <b>-4.58%</b> |

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

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