

K2 Australian Fund

31 July 2023

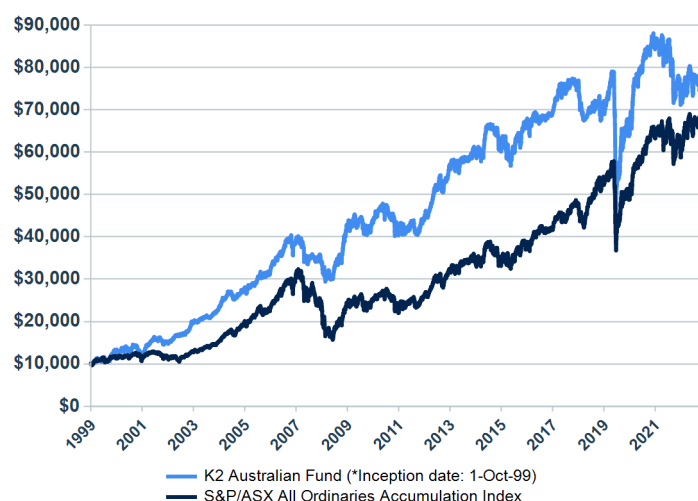


The K2 Australian Fund is an Absolute Return equities fund. The fund is index-unaware, aiming to produce positive absolute returns over the long term with a capital preservation mindset. The Fund's mandate allows it to actively manage its net market exposure – utilising both cash and shorts to help protect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

	1 Month	Unit Price	Inception (%pa)
Performance (Net of Fees)	3.82%	136.98	9.03%

Refer below detailed performance data matrix

Growth of \$10,000



Top 5 Stock Holdings	Current	Monthly Move
Macquarie Group Ltd	10.8%	+0.3%
Seven Group Holdings Ltd	10.7%	+1.0%
BHP Group Ltd	8.6%	-1.5%
Kina Securities Ltd	7.6%	+0.8%
Woodside Energy Group Ltd	6.8%	+0.9%

Market Capitalisation Coverage	Current	Monthly Move
Large Caps >=AUD\$7.5b	63.0%	+0.1%
Mid Caps >=AUD\$2b < AUD\$7.5b	19.0%	+0.1%
Small Caps < AUD\$2b	22.6%	+0.4%

Month End Exposures	Current	Monthly Move
Communication Services	3.6%	+0.1%
Consumer	4.8%	+0.3%
Energy	9.0%	+1.2%
Financials/Real Estate	28.5%	-1.2%
Health Care	5.7%	-1.2%
Industrials	18.3%	-0.6%
Materials	34.6%	+2.1%
Number of Positions	27	-2
Gross Equity Exposure	104.6%	+0.6%
Cash Weighting	-4.6%	-0.6%
Net Equity Exposure	104.6%	+0.6%

Commentary

The K2 Australian Fund returned 3.82% for the month.

During the month the Treasurer appointed Michele Bullock as the 9th Governor of the Reserve Bank of Australia (RBA). She will commence in mid-September and will oversee the implementation of the recently announced Review of the RBA. The Treasurer has insisted that Australia should have the world's best and most effective central bank. He acknowledged that Australia is facing a complex and changing macro environment and monetary policy must be sufficiently equipped to make the right calls in the interests of the Australian people. So what could change? It seems unlikely that the RBA will suddenly embrace a more hawkish perspective. In fact, in a recent speech, Bullock stated that the RBA had been more willing to accept a more gradual return to the inflation target than peer developed central banks. This would help explain why Australia's cash rate is more than 1% lower than peer nations despite having an inflation pulse that is more than 2% faster. Furthermore, Australian mortgage holders are significantly more exposed to variable interest rates than developed peer nations. Fixed rate mortgages accounted for more than 30% of Australia's outstanding mortgages in 2022 and the RBA estimates that by 2024 more than 20% of these will have rolled into variable rates. This is one of the known knowns. An unknown known is, as disposable income squeezes, what will households determine to be non-negotiable expenses?

One non-negotiable expense that Australian households have historically prioritised is the servicing their mortgage. And, as was highlighted by Helia Group (HLI) during the month, this continues to be the case. HLI is Australia's leading provider of lenders mortgage insurance (LMI). HLI is at risk if a mortgage that has a LMI policy moves into the default phase. Problems occur when the outstanding loan is higher than the value of the property secured by the mortgage. Despite high mortgage servicing requirements, elevated living costs, and declining property prices, HLI continues to register a low level of claims and delinquencies. In fact, HLI is reducing the value of its prior liability claim reserves. This backdrop should be supportive for the forthcoming June half year earnings of the Funds holdings in Commonwealth Bank (CBA), Bendigo and Adelaide Bank (BEN) and to a lesser degree Kina Securities (KSL). We are underweight banks but believe that CBA, BEN and KSL are demonstrating that the lending business is sustainable.

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

George Boubouras
Head of Research
research@k2am.com.au
03 9691 6111

Marcela Tirado
Client Services
invest@k2am.com.au
03 9691 6111

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	8.53	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	32.19	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	9.54	-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	11.23	-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	23.16	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	22.57	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	18.33	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	25.35	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	-11.56	-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	1.94	-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	16.30	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	9.99	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	-9.22	-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	26.09	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	12.49	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	10.98	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	-3.16	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	8.99	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	13.08	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	-7.63	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	-12.70	-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	36.05	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	-13.98	-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	-1.94	-0.37	4.10	14.75	4.10%	-0.68%	
2023/24	3.82												3.82	2.99	-5.39%	0.00%	
													Incept.	685.07	590.95		
													Incept.	9.03%pa	8.45%pa	23.28%	-4.40%

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

DISCLAIMER: The K2 Australia Absolute Return Fund is issued by K2 Asset Management Limited (K2) ABN 95 085 445 094, AFS Licence No 244393, a wholly owned subsidiary of K2 Asset Management Holdings Limited. The information contained in this document is produced in good faith and 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. The information provided in this document is current at the time of the preparation and K2 is not obliged to update the information. 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. Please note that past performance is not a reliable indicator of future performance. Any advice and information contained in this document is general only and has been prepared without taking into account any particular circumstances and needs of any party. Before acting on any advice or information in this document you should assess and seek advice on whether it is appropriate for your needs, financial situation, and investment objectives. Investment decisions should not be made upon the basis of its past performance or distribution rate, or any rating given by a ratings agency, since each of these can vary. In addition, ratings need to be understood in the context of the full report issued by the ratings agency themselves. A product disclosure statement or information memorandum for the funds referred to in this document can be obtained at www.k2am.com or by contacting K2. You should consider the product disclosure statement before making a decision to acquire an interest in the fund.

©2023 Morningstar, Inc. All Rights Reserved. The information contained herein: (1) is proprietary to Morningstar and/or its content providers; (2) may not be copied or distributed; and (3) is not warranted to be accurate, complete, or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information. Past performance is no guarantee of future results.