

# K2 Australian Absolute Return

Quarterly Investment Option Update

30 September 2019

## Aim and Strategy

The strategy aims to deliver investment returns and capital growth over the long-term by seeking out opportunities in undervalued companies in all market cycles. The option adopts a flexible investment style, investing in an index unaware fashion with a long bias and actively adjusting net equity exposure through the dynamic allocation of capital. The strategy invests in listed equities in Australia and New Zealand, typically holding up to 80 different stocks in a range of sectors, but may also hold up to 100% cash depending on market conditions to help protect clients' invested capital. The strategy's performance returns may be impacted either positively or negatively by market conditions, interest rates, equity specific factors, liquidity and currency movements. Short selling may be used when specific opportunities or market conditions have the potential to increase returns. Short positions are subject to diligent ongoing risk review by the investment team and stringent stop-loss guidelines. The strategy does not use leverage to increase the net invested position greater than the Gross Asset Value of the strategy. The strategy may use derivatives including futures, options and forward contracts for hedging purposes. Such instruments are currently used sparingly and the strategy does not have pre-determined in their local currency. The strategy does not use other types of leverage.

## Investment Option Performance

To view the latest investment performances for each product please visit [amp.com.a](http://amp.com.a)

## Investment Option Overview

<b>Investment Category</b>	Australian Shares
<b>Suggested Investment timeframe</b>	3-5 years
<b>Relative risk rating</b>	6 / High
<b>Investment style</b>	Specialist
<b>Manager style</b>	Single Manager

Asset Allocation	Benchmark (%)	Actual (%)
Australian Shares	n/a	96.38
Cash	n/a	3.62

Sector Allocation	%
Consumer Discretionary	15.75
Consumer Staples	0.98
Energy	2.19
Financials	38.21
Health Care	6.91
Industries	9.56
Communication Services	5.68
Materials	17.22
Real Estate	-0.11
Cash	3.62

Top Holdings	%
Macquarie Group Limited	10.01
Westpac Banking Corp	8.10
BHP Billiton Limited	6.02
Nine Entertainment Co Holdings	5.68
Seven Group Holdings	5.61
Rio Tinto	5.17
Aust and NZ Banking Group	3.98
Harvey Norman Holdings	3.55
Amcor PLC-CDI	3.47
Moelis Australia Ltd	3.02

## Portfolio Summary

- Positive quarter for Australian equities driven by a strong local reporting season.
- Portfolio more defensively positioned with net equity exposure now below 80%.

## Investment Option Commentary

Stocks selection within Energy, Industrials and Materials sector positively contributed the most to the funds' performance for the quarter while weaker performance of stock selection was within the Financial, Consumer, Non-Cyclical and Communication sectors. As at the end of the quarter, the fund's largest exposure was to the Financial, Basic Materials, Consumer Non-Cyclical, Industrial and Energy sector while exposure to the Technology, Consumer-Cyclical and Communications sector are all less than 3.1%. The cash allocation was increased from 18.8% at the end of June quarter, and now sits at 21.6% at September quarter end.

At a stock level; Woodside Petroleum Ltd, Citadel Group Ltd, Seven Group Holdings Ltd, Money 3 Corp Ltd and BHP Billiton Ltd were amongst the top contributors for the fund, while Axesstoday Ltd, Medical Developments, Pact Group Holdings Ltd, Magellan Financial Group Ltd and Nufarm Ltd were negative contributors.

## Market Commentary

Volatility picked up late in the quarter and is likely to be an ongoing feature in the coming quarter. Ongoing concerns of geopolitics, trade wars and rising long term bond rates will be an ongoing headwind due to the uncertainty.

The Governor of the Reserve Bank of Australia (RBA), Philip Lowe, gave a speech during the month titled "An Economic Update". Lowe stated that, despite expectations that economic growth is expected to pick up, further interest rate cuts may be required. He outlined Australia's strong fundamental position but exhibited frustration with businesses' lack of confidence to expand, invest, innovate and hire. The All Ordinaries Accumulation Index rose 2.1% for the month. The Fund's Financial holdings performed well for the month. Macquarie Group, Westpac Bank and ANZ Bank all rose by more than 5%. Australia housing prices have now improved for three consecutive months and there is some emerging confidence that mortgage growth may start to pick up soon. K2 are however surprised that Australian banks have yet to pass on lower interest rates to small businesses. Small business borrowing costs are 160% higher than those of large businesses and this is holding back commercial lending growth.

## Outlook

The Fund's net exposure for the quarter averaged 83.4%; long and short exposure averaged 83.9% and 0.5% respectively. K2 are of the view that Australia will start to attract global capital. Australia's national debt position is significantly lower than average, there is government stability and the currency is cheap. When compared to developed economic peers, Australia's expected GDP growth is strong.

## Availability

Product name	APIR
AMP Flexible Lifetime Super	AMP1598AU
AMP Flexible Super - Retirement account	AMP1622AU
AMP Flexible Super - Super account	AMP1613AU
CustomSuper	AMP1598AU
Flexible Lifetime - Allocated Pension	AMP1634AU
SignatureSuper	AMP1604AU
SignatureSuper Allocated Pension	AMP1628AU

## Contact Details

Web: [www.amp.com.au](http://www.amp.com.au)  
Email: [askamp@amp.com.au](mailto:askamp@amp.com.au)  
Phone: 131 267



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