

K2 Australian Fund

31 October 2024



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)	0.21%	161.04	9.27%

Refer below detailed performance data matrix

Top 5 Stock Holdings	Current	Monthly Move
Macquarie Group Ltd	12.7%	+0.1%
Seven Group Holdings Ltd	8.8%	-0.1%
BHP Group Ltd	8.8%	-0.6%
RIO Tinto Ltd	6.4%	-0.5%
Aristocrat Leisure Ltd	5.7%	+0.3%

Market Capitalisation Coverage	Current	Monthly Move
Large Caps>=AUD\$7.5b	63.6%	-2.8%
Mid Caps>=AUD\$2b<AUD\$7.5b	16.7%	+2.5%
Small Caps<AUD\$2b	17.3%	-4.7%

Month End Exposures	Current	Monthly Move
Consumer	5.7%	-5.4%
Financials/Real Estate	44.9%	-0.4%
Health Care	10.4%	+2.0%
Industrials	13.9%	-0.2%
Materials	22.7%	-1.1%
SHORTS	-4.4%	-4.4%
Number of Positions	23	0
Gross Equity Exposure	102.0%	-0.6%
Cash Weighting	6.8%	+9.4%
Net Equity Exposure	93.2%	-9.4%

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	+10% pa over the long term
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

Commentary

The K2 Australian Fund returned 0.21% for the month.

The best performing holding for the Fund this month was MA Financial Group (MAF). MAF released an update during the month that outlined some positive developments. Before delving into these outcomes it is worth re-winding five years. Back in 2019, MA Financial held its inaugural investor day. The presentation revealed that transactional and performance fees were growing significantly. Unfortunately, these fees were extremely difficult to forecast and are even harder to value. MAF's management team were clearly aware of this and went to great lengths to outline the future opportunities that were available in credit markets. MAF had secured a credit licence a year earlier and were aiming to take advantage of growth prospects that were available in non-bank lending. Importantly, MAF management had concluded that a credit business could deliver a more reliable stream of recurring earnings and would sustain a higher valuation metric. After enduring COVID and the subsequent higher interest rate environment, MAF has now established a strong foothold in the lending market. The recent update revealed that MAF's residential mortgage business, MA Money, had expanded to \$1.7 billion and after several years of losses, was now at breakeven. MA Money is on track to deliver after-tax earnings of in-excess of \$15 million in 2026. The update also highlighted that MAF's mortgage aggregation and technology platform, Finsure, had grown its managed loans by 24% over the year to \$128 billion and its network of mortgage brokers had expanded to 3,700. As a result of the update, MAF delivered a +21% total return for the month.

The Fund's New Zealand holding in Summerset Group (SUM NZ) is also well positioned for growth. There is a growing appreciation that the benefits of a dovish Reserve Bank of New Zealand (RBNZ) belongs with those companies that are nearest to the residential property market. It could be said that, despite two rate cuts, the RBNZ continues to maintain a restrictive stance on monetary policy. The Official Cash Rate is still more than 200 basis points above the RBNZ's inflation expectation for the year ahead. As a result, consumer confidence continues to languish around levels seen during the GFC and during the COVID pandemic. Hence, unsurprisingly, there is a chorus of market spectators that now believe that the RBNZ will continue to cut rates during the coming months. Typically what happens next is consumer confidence grows as interest rates decline and this eventually feeds into the mindset of potential home buyers; the fear-of-missing-out (FOMO) starts to resurface and housing sales begin to accelerate. Housing credit growth in New Zealand has been subdued for a number of years and home prices are still almost 15% lower than the peak back in 2021. As a result, we would expect to see an improvement in the number of home sales and a lift in dwelling prices over the years ahead. This backdrop would ensure that SUM has operational tailwinds that should drive a significant improvement in profitability. The macro backdrop in New Zealand is on the mend and accordingly the Fund is considering several new investment opportunities.

The best performing holdings for the Fund this month were MAF and Judo Capital Holding (JDO). JDO is a specialist lender to Australian small businesses. JDO's loan growth has consistently exceeded 20%pa without sacrificing margins. Bad debts have also been well contained and operating efficiencies are being extracted. JDO's profit growth in 2025 should exceed +15%. BHP Group (BHP) and Rio Tinto (RIO) were performance detractors. BHP and RIO are being impeded by weaker commodity prices following China's loss of economic momentum.

George Boubouras
 Managing Director (MD)
 Research, Investments & Advisory
research@k2am.com.au

Marcela Tirado
 Head of Relationship Management
 & Corporate Services
invest@k2am.com.au

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	2.11	-1.35	-3.94	4.63	7.84	0.66	-0.41	2.15	-3.47	0.05	0.19	12.31	12.51	-1.60%	-0.31%	
2024/25	4.08	0.08	4.27	0.21									8.84	6.42	1.44%	-1.19%	
													Incept.	824.36	703.30		
													Incept.	9.27%pa	8.66%pa	22.59%	-4.29%

(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.

©2024 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.