

# K2 Australian Fund

## 28 February 2025



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)	-3.99%	160.16	9.12%

Refer below detailed performance data matrix

Top 5 Stock Holdings	Current	Monthly Move
Macquarie Group Ltd	14.3%	+0.2%
SGH Ltd	9.0%	+1.2%
BHP Group Ltd	7.6%	+0.4%
Aristocrat Leisure Ltd	7.0%	+0.2%
Summerset Group Holdings Ltd	6.9%	+0.1%

Market Capitalisation Coverage	Current	Monthly Move
Large Caps>=AUD\$7.5b	55.0%	-3.3%
Mid Caps>=AUD\$2b<AUD\$7.5b	18.8%	-1.6%
Small Caps<AUD\$2b	22.0%	+2.8%

Month End Exposures	Current	Monthly Move
Consumer	9.0%	+0.2%
Financials/Real Estate	46.0%	-8.0%
Health Care	14.9%	+2.7%
Industrials	13.0%	+2.6%
Materials	12.9%	+0.6%
Number of Positions	18	-3
Gross Equity Exposure	95.7%	-2.0%
Cash Weighting	4.3%	+2.0%
Net Equity Exposure	95.7%	-2.0%

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

K2 Australian Fund returned -3.99% for the month.

During the month, the Fund had a number of its companies report profit results for the six months to December. Pleasingly, the results were better than we expected. Let us start with the positives. There were two stand out outperformers; a2 Milk (A2M) and MA Financial Group (MAF). A2M delivered a strong first half result. Revenue grew 10% for the half with solid demand coming from Asia and the US. The Daigou channel continues to be problematic for the distribution of infant milk formula, however, new product launches with another manufacturing partner are partly offsetting the impact. Earnings for the half were 7.6% ahead of last years outcome and an inaugural dividend of 8.5c was declared. A2M lifted guidance for FY2025 and now expects revenue growth to exceed 10%. The company has over NZ\$1 billion of cash that will support some acquisitions and further capital returns. A2M's total return for the month was +35%. MAF's earnings for the six months to December were +40% above the prior corresponding period. Importantly, MAF's recent investments to build out a credit business are starting to pay off. Back in 2022, MAF acquired the mortgage broker Finsure. At the time, Finsure had 13% of the Australian mortgage broking market; today that share has risen to 17% and the managed loan book has grown to \$139 billion. MAF has also developed a non-bank lending business called MA Money. MA Money is now profitable and is scaling well; the loan book doubled in size in 2024 and currently stands \$2.1 billion. By 2026, MA Money should be generating a net profit north of \$15 million. In addition, MAF has established a good foothold in the US Private Credit market. MAF has recently received SEC approval for a specialty income fund which is now available on a large retail platform. MAF is well positioned to deliver strong earnings growth over the coming years. For the month, MAF delivered a total return of +24%.

The Fund's worst performer for the month was Bendigo and Adelaide Bank (BEN). BEN's first half profit was slightly lower than the prior corresponding period but was below market expectations. BEN's share price immediately fell 17% and proceeded to weaken further into the end the month to finish down 21%. Consensus forecasts for BEN's earnings over the year ahead were revised down 7% so the sell off looks like an over-reaction. Despite a competitive backdrop, we were pleased to see BEN increase its number of customers by 130,000 over the past six months. BEN's net promoter score (NPS) also rose to +22 and is now 31 points higher than the industry average. This helped drive loan growth; when compared to the prior corresponding period, BEN's loan book grew +6.7%. Revenue subsequently grew +7.3%. Impaired and problem loans were similar to last year and this led to a flat provisioning charge for bad and doubtful debts. However, BEN's cost of funding its loan growth was higher than expected. For the half, BEN's net interest rate spread fell by 7 basis points versus the prior half. Commonwealth Bank for comparison, saw its spread rise by 7 basis points. BEN's deposit mix was the main cause of the spread weakness; customers were taking out longer dated term deposits and were leaving less funds in standard transaction accounts. In addition, offset account balances were preferred over saving accounts. We are of the belief that these profit impediments are easily solvable. BEN has already repriced some of its offerings and this will be evident in the next half. It's digital offering has been transformed, the time to approve a loan has shrunk, and the service to the mortgage broking channel has dramatically improved. Looking forward, we believe that BEN can win significant market share and therefore deliver better earnings growth than the major banks. Despite this, BEN is trading on a PE ratio that is 25% lower than the average of the major banks.

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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	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	13.80%	-1.68%	
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	2.37%	-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	1.19%	-0.20%	
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	4.22%	-0.69%	
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	2.20	-2.73	4.20	-3.99					8.25	7.19	1.09%	-0.87%	
													Incept.	819.31	709.13		
													Incept.	9.12%pa	8.57%pa	22.59%	-4.28%

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

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