

K2 Australian Fund

31 March 2024

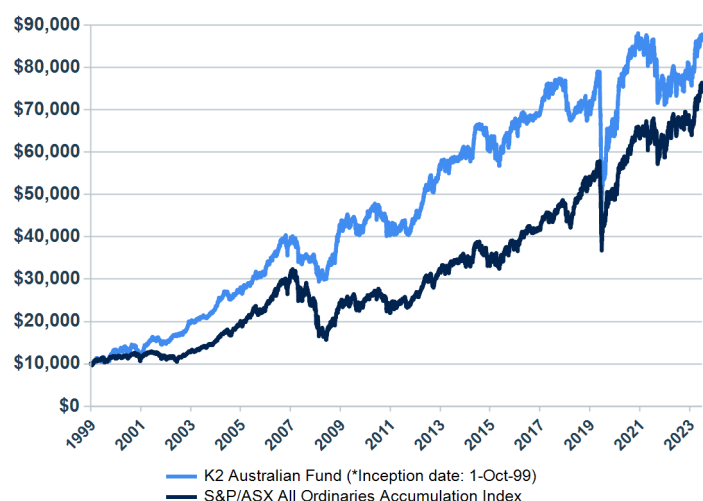


The K2 Australian Fund is an Absolute Return equities fund. The fund is index-unaware, aiming to produce positive absolute returns over the long term with a capital preservation mindset. The Fund's mandate allows it to actively manage its net market exposure – utilising both cash and shorts to help protect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

	1 Month	Unit Price	Inception (%pa)
Performance (Net of Fees)	2.15%	153.13	9.27%

Refer below detailed performance data matrix

Growth of \$10,000



Top 5 Stock Holdings	Current	Monthly Move
Macquarie Group Ltd	11.8%	+0.1%
Seven Group Holdings Ltd	9.6%	+0.4%
BHP Group Ltd	7.8%	-0.1%
RIO Tinto Ltd	6.5%	-0.2%
Corporate Travel Management	5.2%	+0.3%

Market Capitalisation Coverage	Current	Monthly Move
Large Caps >=AUD\$7.5b	59.4%	-4.9%
Mid Caps >=AUD\$2b < AUD\$7.5b	29.3%	+4.1%
Small Caps < AUD\$2b	12.5%	-0.8%

Month End Exposures	Current	Monthly Move
Consumer	11.7%	-0.1%
Energy	5.1%	+3.0%
Financials/Real Estate	42.7%	+6.0%
Health Care	8.0%	+0.2%
Industrials	14.4%	-1.3%
Materials	19.3%	-3.9%
SHORTS	-1.1%	-1.1%
Number of Positions	26	+2
Gross Equity Exposure	102.3%	-0.5%
Cash Weighting	-0.1%	+2.7%
Net Equity Exposure	100.1%	-2.7%

Commentary

The K2 Australian Fund returned 2.15% for the month.

Over the past few months there has been an increased volume of articles highlighting the limited supply of new housing in Australia. Simply put, there are concerns that the number of net migrants has been rising however the completion rate of new housing stock has been declining. In response, we have spoken to number of property developers. The consensus feedback was that the availability of construction materials is improving, the supply of labour is increasing, and the expected delivery time for projects is shortening. Typically, these conditions would lead to an increase in housing activity. However, there is still one critical ingredient that is missing: housing affordability. Affordability is a function of the absolute price of housing stock relative to household income or loan servicing capacity. Unfortunately, household income has been constrained by the increased costs of living, whereas loan servicing capacity has been restricted by rising interest rates and banks hesitation to lend. Hence, if housing affordability is to improve, the price of everyday goods and services needs to taper, interest rates must be cut, and banks need to be less risk adverse. We are noticing that a turning point in all these inputs is approaching and therefore we feel that a rebound in housing activity is inevitable. Mortgage growth would also improve which would in turn support the profit outlook for the Fund's holding in Bendigo and Adelaide Bank (BEN).

BEN has an asset base of \$100 billion, employs over 7,000 staff and has 2.5 million loyal customers. BEN's expanding customer base underscores its purpose to feed into prosperity, not off it. Despite this, BEN has a share of just 2.2% of the Australian lending market. Over the past year BEN has stepped away from the competitive residential mortgage market. BEN has instead focussed on transforming itself into a less complex bank that has broader capabilities to compete when industry returns are more prospective. BEN has actively invested in its digital platform which now accounts for more than 16% of its residential lending settlements. BEN believe that, by 2026, its return on equity will be above the cost of capital and that the cost-to-income ratio will be 50%. Market participants are sceptical and as a result BEN's share price is trading 20% below its book value. If BEN achieves its targets, and we believe it will, then the share price should trade well above its book value. BEN is also relatively cheap; its PE ratio is 25% lower than the average of the four majors and its dividend yield is more than 20% higher.

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

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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	13.58%	-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				16.06	13.84	-3.07%	-0.33%
												Incept.	777.63	663.71		
												Incept.	9.27%pa	8.65%pa	23.37%	-4.42%

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

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