

# K2 Global High Alpha Fund

## 30 September 2024



The K2 Global High Alpha 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)	4.04%	125.56	9.31%

Refer below detailed performance data matrix

Top 5 Stock Holdings	Current	Monthly Move
Seven Group Holdings Ltd	9.0%	+0.5%
BHP Group Ltd-Spon Adr	8.0%	+8.0%
Macquarie Group Ltd	7.8%	+0.1%
Summerset Group Holdings Ltd	6.7%	+0.4%
RIO Tinto Ltd	4.4%	+0.7%

Market Capitalisation Coverage	Current	Monthly Move
Large Caps>=AUD\$7.5b	56.2%	-0.8%
Mid Caps>=AUD\$2b<AUD\$7.5b	17.4%	+1.6%
Small Caps<AUD\$2b	27.0%	+1.6%

Month End Exposures	Current	Monthly Move
Consumer	8.3%	+0.6%
Financials/Real Estate	34.1%	+0.3%
Health Care	10.1%	+0.2%
Industrials	16.2%	+2.5%
Information Technology	13.9%	-2.0%
Materials	14.3%	+0.5%
Number of Positions	30	-1
Gross Equity Exposure	100.6%	+0.3%
Cash Weighting	-0.6%	-4.5%
Net Equity Exposure	100.6%	+4.5%
Currency Exposure Hedged of AUD	89.0%	-0.8%

Fund Characteristics	
Portfolio Managers	Campbell Neal, David Poppenbeek and Bill Laister
Strategy	International Equities
Objectives	To deliver consistent absolute 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	Up to 120
Cash	Up to 100% of portfolio
Distributions	Annually
Management Fee	2.05%
Buy/Sell	Monthly Application/Redemption
Performance Fee	20.5% of the amount by which the NAV per unit exceeds the High Water Mark

### Commentary

The K2 Global High Alpha Fund returned 4.04% for the month.

Post the recent reporting season, we challenged the capital allocation thesis for some of the Funds' key holdings. Seven Group (SVW) has been a core position for many years. One of SVW's main drivers of value has been its corporate offices' ability to astutely allocate capital. Hence, it would make sense for the corporate office to be responsible for the monetisation of Boral's 4,500 hectares of surplus property. The Independent Expert Report within Boral's Target Statement estimated that this surplus property was worth about \$1.5 billion. However, we feel that the potential could be significantly larger. To gauge what could be possible, we considered a similar sized surplus landholding that Brickworks (BKW) held back in 2007. Over the subsequent decade, BKW generated over \$600 million of property-related earnings through irregular land sales and development profits as well as via a JV with Goodman Group (GMG). The JV with GMG was founded with an industrial developable landbank of 300 hectares. After ten years, the asset value of the JV was \$1.5 billion. Interestingly, Boral has already set up a partnership with LOGOS to develop an industrial logistics precinct at Deer Park. The site is 450 hectares and is within close proximity of major transportation links. If we use BKW's original assumptions for the potential value of the GMG JV, then inflation adjust them to today's dollars, the completed Deer Park logistics park could generate well north of \$100 million per annum of rent and be valued at over \$1.5 billion.

Summerset Group (SUM NZ) is an owner and developer of retirement villages. During the decade leading up to COVID, SUM had travelled in the shadows of Ryman Healthcare (RYM NZ). However, SUM had tended to be a more prudent manager of capital. SUM capped borrowings at 90% of the aggregated value of its landbank, development work-in-progress, and unsold new stock (LVR). Hence its completed villages were debt free. RYM on the other hand was developing significantly more commercially intense villages and its LVR tended to be 1.5x higher than SUM. Post COVID, RYM needed to retire expensive debt funding, raise equity and curtail future developments. SUM's prudence gave it the financial flexibility to expand its development pipeline by 10% whilst maintaining a LVR of sub-90%. SUM is now on the cusp of becoming the industry leader. SUM has sector leading operational momentum so a more favourable interest rate setting should see it extend its competitive advantage. We believe that SUM can double its earnings over the coming five years, and today's PE of 12x undervalues the secular growth and strategic positioning.

The best performing holdings for the Fund this month were BHP Group (BHP), Rio Tinto (RIO) and Macquarie Group (MQG). BHP and RIO both rallied 15% late in the month. This was in response to a variety of stimulatory measures that were announced to help improve the momentum of China's economy. These included interest rate cuts, reductions to bank reserving ratios and less stringent lending criteria for second homes. Commodity prices squeezed higher and China's equity market rallied strongly. MQG performed well following a larger than expected cut in the US Federal Funds rate. MQG's profitability typically improves when monetary policy eases; asset recycling quickens and performance fees are crystallised. Novo Nordisk (NOVOB DC) and Samsung Electronics (005930 KS) were performance detractors.

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## K2 Global High Alpha 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
2009/10						0.81	-1.26	3.46	4.61	-0.28	-5.44	1.83	3.45	1.48	33.67%	-0.28%
2010/11	5.28	1.36	13.20	8.95	5.90	10.18	0.83	2.04	0.66	3.40	-1.73	-3.09	56.62	3.50	9.62%	-0.76%
2011/12	0.97	-3.09	-8.55	8.86	-3.30	-3.53	6.22	7.90	0.04	-2.47	-7.31	-2.32	-8.00	-2.59	28.98%	-0.74%
2012/13	1.48	4.49	4.01	3.53	-0.97	6.91	4.92	4.42	2.18	4.42	1.80	-0.81	42.70	31.02	13.92%	-0.37%
2013/14	4.92	2.22	4.73	4.27	3.23	1.63	0.34	2.41	-0.56	0.05	0.19	-1.73	23.68	19.62	8.04%	-0.01%
2014/15	4.61	1.56	1.56	1.07	1.18	3.26	4.83	4.50	2.41	3.16	3.69	-3.51	31.92	23.89	9.19%	-0.07%
2015/16	4.50	-2.39	0.65	3.12	-1.87	-1.03	-4.72	-4.73	1.62	0.78	2.15	-4.13	-6.41	-0.60	18.10%	-0.49%
2016/17	3.76	2.20	-0.06	-1.85	0.62	1.52	2.24	-0.78	2.64	0.04	1.91	-0.90	11.77	15.36	19.74%	-2.44%
2017/18	0.12	3.67	1.39	3.63	1.83	1.24	-0.35	-0.17	-1.33	0.18	-0.69	0.59	10.45	15.13	16.40%	-2.98%
2018/19	0.60	0.51	-0.28	-4.95	-5.27	1.63	-3.30	3.85	-1.25	2.65	-1.85	1.26	-6.64	10.51	38.34%	-6.22%
2019/20	1.96	-3.55	2.80	0.91	3.40	2.16	1.13	-7.77	-23.23	8.13	6.33	1.38	-10.05	3.22	14.75%	-2.80%
2020/21	4.68	5.52	-0.96	-1.07	9.78	3.15	-0.28	3.41	0.90	3.48	-1.14	1.70	32.67	28.43	3.62%	-0.45%
2021/22	-0.31	3.48	-2.98	2.20	-1.12	0.75	-5.87	-1.51	2.21	-2.54	-4.35	-13.70	-22.32	-8.80	0.76%	-0.25%
2022/23	3.90	-1.29	-8.84	2.77	6.03	-4.49	7.16	-2.84	-1.84	0.79	-2.38	-1.17	-3.30	19.97	6.07%	-0.73%
2023/24	3.63	0.75	-0.16	-2.19	3.07	6.70	-0.44	-1.52	1.93	-3.87	-1.37	-0.52	5.71	18.21	2.69%	-0.33%
2024/25	3.43	-1.93	4.04										5.53	2.77	3.40%	-0.87%
Incept.													274.34	410.71		
Incept.													9.31%pa	11.62%pa	14.21%	-1.23%

(1) Morningstar Global Markets NR AUD

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