

K2 Global High Alpha Fund

31 August 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) | -1.93% | 120.69 | 9.07% |

Refer below detailed performance data matrix

| Top 5 Stock Holdings | Current | Monthly Move |
|------------------------------|---------|--------------|
| Seven Group Holdings Ltd | 8.5% | +0.7% |
| Macquarie Group Ltd | 7.7% | +0.5% |
| BHP Group Ltd | 7.7% | 0.0% |
| Summerset Group Holdings Ltd | 6.3% | +0.4% |
| Kina Securities Ltd | 3.9% | +0.1% |

| Market Capitalisation Coverage | Current | Monthly Move |
|--------------------------------|---------|--------------|
| Large Caps>=AUD\$7.5b | 57.0% | -0.5% |
| Mid Caps>=AUD\$2b<AUD\$7.5b | 15.9% | -0.1% |
| Small Caps<AUD\$2b | 25.4% | +4.5% |

| Month End Exposures | Current | Monthly Move |
|---------------------------------|---------|--------------|
| Consumer | 7.7% | -0.1% |
| Financials/Real Estate | 33.8% | +3.9% |
| Health Care | 9.9% | +0.5% |
| Industrials | 13.8% | +0.4% |
| Information Technology | 15.8% | -0.4% |
| Materials | 13.8% | 0.0% |
| SHORTS | -2.1% | -0.9% |
| Number of Positions | 31 | +2 |
| Gross Equity Exposure | 100.3% | +4.8% |
| Cash Weighting | 3.9% | -3.0% |
| Net Equity Exposure | 96.1% | +3.0% |
| Currency Exposure Hedged of AUD | 89.9% | +0.3% |

| 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 -1.93% for the month.

During the month, the Governor of the Reserve Bank of Australian (RBA) made some interesting comments. Firstly, at the media conference for the Monetary Policy Decision the Governor succinctly said, "when demand is above supply, that's inflation - prices go up". This is why the RBA adjusts monetary policy; to help realign demand with supply thus enabling the inflation rate to trend into its 2-3% target band. Unfortunately, COVID upended the demand/supply dynamics and throughout 2022 and 2023 Australia's annual headline inflation rate averaged over 6%. However, over the past seven months the rate of inflation has faded and is now 3.5%. Given that inflation is still above the RBA's target range, the Governor stated that "a near-term reduction in the cash rate doesn't align with the Board's current thinking". But, what if the supply side of the economy finally starts to expand? Let's use supermarkets as a simple case study.

Between 2022 and 2023 Coles (COL) stated that its supermarkets delivered an average inflation rate of 5%pa. At its peak during the last quarter of 2022, the annual inflation rate of COL's supermarkets hit 7.7%. The supply chain was struggling with shortages of workers, pallets and raw materials. Floods in New South Wales and Queensland added to the complex task of delivering goods to customers. Today, most of the bottlenecks in the supply chain have been decongested and hence, COL's supermarkets are now showing an annual inflation rate of just 1.5%. This partly reflects a greater availability of produce in a more timely manner, but also demonstrates a greater level of competitive pricing behaviour. Elevated mortgage expenses and household running costs has forced consumers to become more value-oriented. As a result, we think that the COL supermarket observation can be rolled out across a number of other industries. All up, we can't help but feel that the supply side of the Australian economy has the potential to drive inflation into the RBA's target range sooner than expected.

The June half reporting season for the members of the ASX 100 Index was unremarkable; half of the companies had earnings forecasts upgraded but the median move in EPS projections for the year ahead was slightly down during the month. The ASX 100 EPS for the year ahead peaked in October 2022 and has graduated ever since. Over the past two years the EPS projection for the ASX 100 has declined by 12%. Declining commodity prices have been a feature but fatigued consumers have also taken a toll. Despite the difficult earnings backdrop, the ASX 100 has still managed to deliver a total return of +30% over the past two years. Given that the price of the ASX 100 has outperformed the EPS, the Price to Earnings Ratio (PE) has risen by 4.5x and is now over 18x next years earnings. The ASX 100 is as expensive today as it was at the start of 2021 when interest rates were effectively zero. The median holding for the Fund has a PE of just over 17x yet has an ROE that is nearly double that of the ASX 100.

The best performing holdings for the Fund this month were MA Financial Group (MAF) and Judo Capital (JDO). MAF has invested heavily in strategic growth initiatives that are on the cusp of contributing to meaningful earnings in coming years. JDO continues to advance towards its ambitious at-scale metrics. Nib Holdings (NHF) and Acrow Ltd (ACF) 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 | 2.68% | -0.33% |
| 2024/25 | 3.43 | -1.93 | | | | | | | | | | | 1.44 | 2.71 | 5.97% | -0.77% |
| Incept. | | | | | | | | | | | | | 259.82 | 410.38 | | |
| Incept. | | | | | | | | | | | | | 9.07%pa | 11.68%pa | 14.36% | -1.23% |

(1) Morningstar Global Markets NR AUD

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