

K2 Global High Alpha Fund

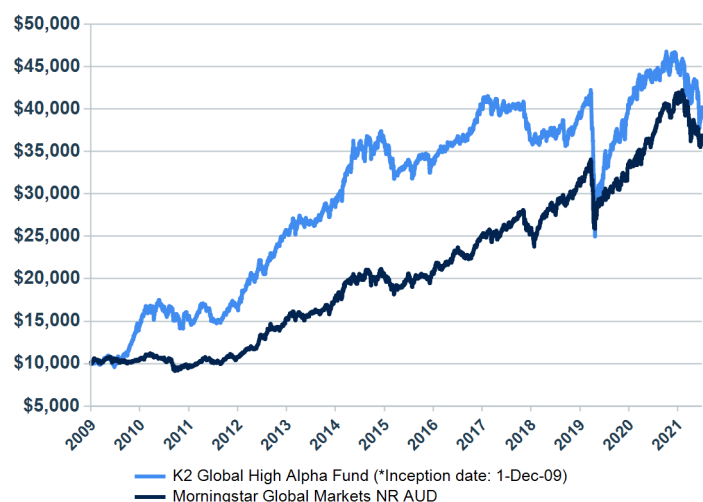
31 May 2022



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	3 Months	6 Months	1 Year	5 Years (%pa)	10 Years (%pa)	Inception (%pa)
Performance (Net of Fees)	-4.35%	-4.72%	-11.01%	-8.46%	1.88%	10.17%	11.78%

Growth of \$10,000



Top 5 Stock Holdings	Current	Monthly Move
Macquarie Group Ltd	7.2%	-0.5%
RIO Tinto Ltd	5.8%	+0.3%
BHP Group Ltd	5.7%	-0.2%
Kina Securities Ltd	5.4%	+0.4%
Maas Group Holdings Ltd	4.5%	-0.3%

Month End Exposures	Current	Monthly Move
Communication Services	6.0%	+4.0%
Consumer	5.1%	-1.4%
Energy	3.9%	+0.2%
Financials	28.4%	+4.3%
Health Care	3.8%	-0.9%
Industrials/Real Estate	16.8%	-0.1%
Information Technology	5.6%	-3.4%
Materials	21.0%	-0.6%
Number of Positions	35	-4
Gross Equity Exposure	93.3%	-0.9%
Cash Weighting	6.7%	+0.9%
Net Equity Exposure	93.3%	-0.9%
Currency Exposure Hedged of AUD	97.7%	+0.8%

George Boubouras
Head of Research
research@k2am.com.au
03 9691 6111

Marcela Tirado
Client Services
invest@k2am.com.au
03 9691 6111

Commentary

The K2 Global High Alpha Fund returned -4.35% for the month. Global market volatility continued for the month.

Uncertainty for markets year-to-date remain primarily with rising inflation expectations and the need to raise US cash rates more aggressively vs market expectation. The Fed's communication is important for guidance for markets, and it has become very clear in recent months that they need to address the risk of core inflation getting out of hand whereby becoming a policy dilemma.

The increased market volatility will also continue to be supportive for the USD, particularly vs the Yen and Euro. However, some commodity economies will continue to benefit from the current strong structural cycle and their currencies are not expected to weaken as much to the USD. The Fed is on track to continue to raise the Fed Funds Rate at each of the FOMC Meetings this year with markets anticipating cash rates rising to above 3%. This will assist in creating the required slack in the economy and help address the stubborn inflation concerns. However, it will also lead to the market beginning to price in the start of the next rate cut cycle. Early 2024 looks possible.

Adjusting to higher nominal cash rates from the near zero levels is a painful transition, however, it will assist investors navigate the cycle going forward. The prospect of the US Fed engineering a soft economic landing is diminishing but still remains a viable chance.

There are some positives which include US earnings momentum above long run historical benchmarks (but slowing), compelling equity valuations compared to late 2021, solid aggregate corporate credit conditions, high household savings rates and a robust labour market in developed economies. Further, strong wealth effects create some comfort for policy makers that the tighter monetary policy can be absorbed. The speed however of the monetary tightening will create some additional pain. The risks include inflation expectations, the ongoing supply chain bottlenecks from the China lockdowns, increasing corporate costs, persistent high energy prices, quantitative tightening (QT), geopolitical risks and the very low levels of both consumer and corporate sentiment going forward.

The K2 Global High Alpha Fund continues to focus on exposure to businesses that maintain reliable free cash flow at reasonable valuations hence the low weighting historically to US technology. Our largest weightings include Macquarie Group, Rio, BHP and MAAS Group Holdings. Some of the best performing holdings for the Fund this month were Woodside Energy, Stanmore Resources, US Bancorp and The Lottery Corp.

Fund Characteristics

FUM	AUD \$21m
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

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		-9.99	-4.32	-0.15%	-0.27%
												Incept.	302.12	267.63		
												Incept.	11.78%pa	10.98%pa	16.48%	-1.37%

(1) Morningstar Global Markets NR AUD

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