

K2 Australian Fund

30 September 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)	4.27%	160.70	9.29%

Refer below detailed performance data matrix

Top 5 Stock Holdings	Current	Monthly Move
Macquarie Group Ltd	12.6%	+0.6%
BHP Group Ltd	9.4%	+0.8%
Seven Group Holdings Ltd	9.0%	+0.1%
RIO Tinto Ltd	6.9%	+0.8%
Orica Ltd	5.6%	+2.3%

Market Capitalisation Coverage	Current	Monthly Move
Large Caps>=AUD\$7.5b	66.4%	+2.7%
Mid Caps>=AUD\$2b<AUD\$7.5b	14.3%	-2.0%
Small Caps<AUD\$2b	22.0%	+0.7%

Month End Exposures	Current	Monthly Move
Consumer	11.1%	+0.3%
Financials/Real Estate	45.3%	-1.3%
Health Care	8.3%	-0.2%
Industrials	14.0%	+0.2%
Materials	23.9%	+4.3%
Number of Positions	23	-2
Gross Equity Exposure	102.6%	-0.7%
Cash Weighting	-2.6%	-3.4%
Net Equity Exposure	102.6%	+3.4%

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

The K2 Australian Fund returned 4.27% 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. NIB Holdings (NHF) and Woodside Energy Group (WDS) were performance detractors.

George Boubouras
 Managing Director (MD)
 Research, Investments & Advisory
research@k2am.com.au

Marcela Tirado
 Head of Relationship Management
 & Corporate Services
invest@k2am.com.au

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	-3.47	0.05	0.19	12.31	12.51	-1.60%	-0.31%	
2024/25	4.08	0.08	4.27										8.61	7.85	1.71%	-0.89%	
													Incept.	822.41	714.11		
													Incept.	9.29%pa	8.75%pa	22.60%	-4.28%

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

DISCLAIMER: The K2 Australia Absolute Return Fund is issued by K2 Asset Management Limited (K2) ABN 95 085 445 094, AFS Licence No 244393, a wholly owned subsidiary of K2 Asset Management Holdings Limited. The information contained in this document is produced in good faith and does not constitute any representation or offer by K2. It is subject to change without notice and is intended as general information only and is not complete or definitive. The information provided in this document is current at the time of the preparation and K2 is not obliged to update the information. K2 does not accept any responsibility and disclaims any liability whatsoever for loss caused to any party by reliance on the information in this document. Please note that past performance is not a reliable indicator of future performance. Any advice and information contained in this document is general only and has been prepared without taking into account any particular circumstances and needs of any party. Before acting on any advice or information in this document you should assess and seek advice on whether it is appropriate for your needs, financial situation, and investment objectives. Investment decisions should not be made upon the basis of its past performance or distribution rate, or any rating given by a ratings agency, since each of these can vary. In addition, ratings need to be understood in the context of the full report issued by the ratings agency themselves. A product disclosure statement or information memorandum for the funds referred to in this document can be obtained at www.k2am.com or by contacting K2. You should consider the product disclosure statement before making a decision to acquire an interest in the fund.

©2024 Morningstar, Inc. All Rights Reserved. The information contained herein: (1) is proprietary to Morningstar and/or its content providers; (2) may not be copied or distributed; and (3) is not warranted to be accurate, complete, or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information. Past performance is no guarantee of future results.