

K2 Australian Fund

31 August 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)	0.08%	154.12	9.14%

Refer below detailed performance data matrix

Top 5 Stock Holdings	Current	Monthly Move
Macquarie Group Ltd	12.1%	-0.6%
Seven Group Holdings Ltd	8.9%	-0.5%
BHP Group Ltd	8.6%	-0.2%
RIO Tinto Ltd	6.1%	-0.3%
Resmed Inc-Cdi	5.2%	+0.5%

Market Capitalisation Coverage	Current	Monthly Move
Large Caps>=AUD\$7.5b	63.7%	-3.4%
Mid Caps>=AUD\$2b<AUD\$7.5b	16.3%	-0.5%
Small Caps<AUD\$2b	21.3%	+5.1%

Month End Exposures	Current	Monthly Move
Consumer	10.8%	+0.0%
Energy	1.9%	0.0%
Financials/Real Estate	46.6%	+0.8%
Health Care	8.6%	-0.3%
Industrials	13.8%	-0.3%
Materials	19.6%	+1.0%
SHORTS	-2.1%	-0.8%
Number of Positions	25	0
Gross Equity Exposure	103.3%	+2.0%
Cash Weighting	0.8%	-0.4%
Net Equity Exposure	99.2%	+0.4%

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 0.08% 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 14x and is 20% cheaper than 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 Corporate Travel Management (CTD) 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											4.17	4.26	2.17%	-0.79%	
													Incept.	784.64	686.96		
													Incept.	9.14%pa	8.63%pa	22.61%	-4.27%

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

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