

K2 Global High Alpha Fund

31 October 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)	0.55%	126.25	9.29%

Refer below detailed performance data matrix

Top 5 Stock Holdings	Current	Monthly Move
Macquarie Group Ltd	7.0%	-0.8%
Summerset Group Holdings Ltd	6.9%	+0.1%
BHP Group Ltd	6.8%	+6.8%
MA Financial Group Ltd	4.6%	+0.8%
Seven Group Holdings Ltd	4.4%	-4.6%

Market Capitalisation Coverage	Current	Monthly Move
Large Caps>=AUD\$7.5b	47.5%	-8.7%
Mid Caps>=AUD\$2b<AUD\$7.5b	13.1%	-4.3%
Small Caps<AUD\$2b	24.1%	-2.9%

Month End Exposures	Current	Monthly Move
Consumer	6.6%	-1.7%
Financials/Real Estate	28.2%	-6.0%
Health Care	8.4%	-1.7%
Industrials	10.8%	-5.4%
Information Technology	14.1%	+0.3%
Materials	12.3%	-2.0%
SHORTS	-4.2%	-4.2%
Number of Positions	28	-2
Gross Equity Exposure	89.0%	-11.7%
Cash Weighting	19.5%	+20.1%
Net Equity Exposure	80.5%	-20.1%
Currency Exposure Hedged of AUD	89.2%	+0.2%

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 0.55% for the month.

The best performing holding for the Fund this month was MA Financial Group (MAF). MAF released an update during the month that outlined some positive developments. Before delving into these outcomes, it is worth re-winding five years. Back in 2019, MA Financial held its inaugural investor day. The presentation revealed that transactional and performance fees were growing significantly. Unfortunately, these fees were extremely difficult to forecast and are even harder to value. MAF's management team were clearly aware of this and went to great lengths to outline the future opportunities that were available in credit markets. MAF had secured a credit licence a year earlier and were aiming to take advantage of growth prospects that were available in non-bank lending. Importantly, MAF management had concluded that a credit business could deliver a more reliable stream of recurring earnings and would sustain a higher valuation metric. After enduring COVID and the subsequent higher interest rate environment, MAF has now established a strong foothold in the lending market. The recent update revealed that MAF's residential mortgage business, MA Money, had expanded to \$1.7 billion and after several years of losses, was now at breakeven. MA Money is on track to deliver after-tax earnings of in-excess of \$15 million in 2026. The update also highlighted that MAF's mortgage aggregation and technology platform, Finsure, had grown its managed loans by 24% over the year to \$128 billion and its network of mortgage brokers had expanded to 3,700. As a result of the update, MAF delivered a +21% total return for the month.

The Fund's New Zealand holding in Summerset Group (SUM NZ) is also well positioned for growth. There is a growing appreciation that the benefits of a dovish Reserve Bank of New Zealand (RBNZ) belong with those companies that are nearest to the residential property market. It could be said that, despite two rate cuts, the RBNZ continues to maintain a restrictive stance on monetary policy. The Official Cash Rate is still more than 200 basis points above the RBNZ's inflation expectation for the year ahead. As a result, consumer confidence continues to languish around levels seen during the GFC and during the COVID pandemic. Hence, unsurprisingly, there is a chorus of market spectators that now believe that the RBNZ will continue to cut rates during the coming months. Typically, what happens next is consumer confidence grows as interest rates decline and this eventually feeds into the mindset of potential home buyers; the fear-of-missing-out (FOMO) starts to resurface and housing sales begin to accelerate. Housing credit growth in New Zealand has been subdued for a number of years and home prices are still almost 15% lower than the peak back in 2021. As a result, we would expect to see an improvement in the number of home sales and a lift in dwelling prices over the years ahead. This backdrop would ensure that SUM has operational tailwinds that should drive a significant improvement in profitability. The macro backdrop in New Zealand is on the mend and accordingly the Fund is considering several new investment opportunities.

The best performing holdings for the Fund this month were MAF and Purpose Bitcoin ETF (BTCC/U CN). The Bitcoin price rose during the month on the expectation that Donald Trump would be voted in as the new US President at the forthcoming election. During his campaign trail, Trump had stated that he was a believer in crypto currencies and therefore there is a chance that a Republican-led congress may become a more lenient regulator. BHP Group (BHP US) and SPS Commerce Inc (SPSC US) 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	4.04	0.55									6.11	6.29	3.34%	-1.18%	
													Incept.	276.40	428.19		
													Incept.	9.29%pa	11.80%pa	14.20%	-1.25%

(1) Morningstar Global Markets NR AUD

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