

K2 Global High Alpha Fund

30 November 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)	4.93%	132.47	9.59%

Refer below detailed performance data matrix

Top 5 Stock Holdings	Current	Monthly Move
Summerset Group Holdings Ltd	7.4%	+0.6%
Macquarie Group Ltd	7.3%	+0.3%
Purpose Bitcoin Etf	6.4%	+2.1%
BHP Group Ltd	5.8%	-1.0%
SGH Ltd	5.5%	+1.1%

Market Capitalisation Coverage	Current	Monthly Move
Large Caps>=AUD\$7.5b	59.3%	+16.2%
Mid Caps>=AUD\$2b<AUD\$7.5b	13.2%	+0.1%
Small Caps<AUD\$2b	28.3%	+4.2%

Month End Exposures	Current	Monthly Move
Consumer	10.4%	+3.8%
Financials/Real Estate	32.9%	+4.7%
Health Care	10.9%	+2.5%
Industrials	12.3%	+1.4%
Information Technology	14.3%	+0.2%
Materials	13.7%	+1.4%
SHORTS	-2.9%	+1.3%
Number of Positions	31	+3
Gross Equity Exposure	103.7%	+14.7%
Cash Weighting	2.1%	-17.4%
Net Equity Exposure	97.9%	+17.4%
Currency Exposure Hedged of AUD	85.6%	-3.6%

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 4.93% for the month.

The broad outlook for Australian equities is becoming complicated and the Reserve Bank of Australia (RBA) is in somewhat of a bind. Excessive spending by government bodies has created labour related bottlenecks. Hours worked are rising but economic outcomes are fading. As a result, productivity measures are declining, and inflationary implications are persisting. Given the magnitude of the slowdown in Australia's economic activity, the RBA arguably should have already cut rates. Australian mortgages have rolled off the COVID low fixed interest rate and today most mortgages have a variable interest rate. Hence, the thirteen rate hikes over the past few years has had a meaningful impact on the costs of running a household and pockets of stress are appearing. By way of example, over the past year, the aggregated value of loans for ANZ, NAB and WBC that were 90 days in arrears rose by 34%. Outside of COVID, this is the largest rise since the GFC. Despite this, the RBA is holding steadfast to its view that the underlying rate of inflation in Australia remains too high and therefore its restrictive stance on monetary policy needs to be maintained. Accordingly, the majority of listed companies continue to sail into economic headwinds. The few companies that have tailwinds, are now being priced exuberantly.

During the month, there were six companies in the ASX 100 Index that accounted for a meaningful portion of the performance. The share prices of Cochlear (COH), Car Group (CAR), Pro Medicus (PME), REA Group (REA), Wisetech Global (WTC) and Xero Ltd (XRO) rose on average by +13% during the month. Today, these companies are on average trading on 86x next years' expected earnings and offer a PE-to-Growth ratio of 3.6x. This is too rich for us. In fact, we believe that these type of valuation metrics should highlight one of the drawbacks of a passive approach to stock selection; the backward-looking factor of price momentum completely overrides the forward-looking discipline of valuations. The average company in the ASX 100 now trades on 29x next years' expected earnings. The Fund only holds eleven companies from this subset and their average PE ratio is 19x next years' expected earnings. It is also worth mentioning that these eleven companies are expected to deliver double digit earnings growth in coming years, so the PE-to-Growth ratio is 1.6x. Simply put, a passive stock selection process assumes that the biggest company is the best company. The momentum of change in market capitalisation relative to peers is the determinant of the holding size. Our investment process on the other hand tilts exposure to the most attractive return opportunities relative to risk. Put simply, even though Commonwealth Bank (CBA) has a 10% weight in most passive Australian equity portfolios, our Fund holds none. CBA's expected returns are diminished by its excessive valuation metrics.

There is little doubt that CBA is a world-class bank. It delivers an ROE that outstrips most global peers which has enabled CBA to efficiently allocate capital. However, the law of large numbers will be a drag on growth prospects. About 35% of Australian consumers consider CBA to be their main financial institution and this has enabled CBA to build out an asset base of \$1.2 trillion. However, the rate of asset growth has consistently faded over the past thirty years and this year the growth rate was just 0.2%. Despite this, CBA is trading on 26x next years' expected earnings which are forecast to grow by a pedestrian rate 3%pa over the coming years. We prefer Macquarie Group (MQG) given it is 20% cheaper than CBA yet has an earnings growth rate that is three times faster.

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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	14.87%	-2.83%	
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	0.81%	-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	6.13%	-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	4.93								11.34	10.88	3.85%	-1.82%	
													Incept.	294.94	450.97		
													Incept.	9.59%pa	12.05%pa	14.25%	-1.30%

(1) Morningstar Global Markets NR AUD

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