

K2 Global High Alpha Fund

31 December 2022

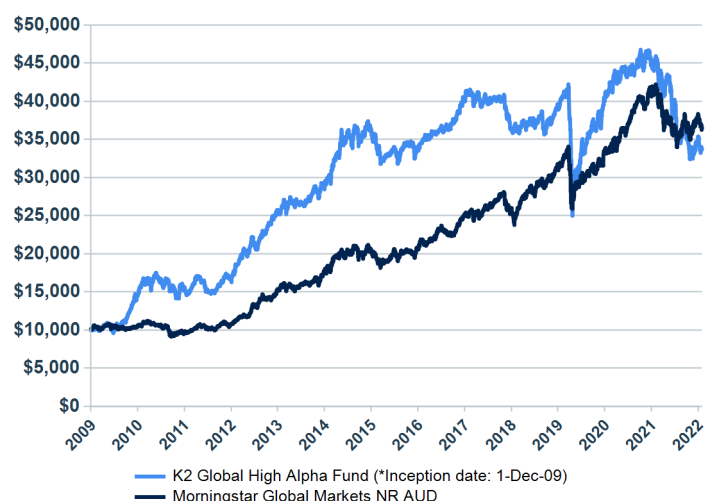


The K2 Global High Alpha Fund is an Absolute Return equities fund. The fund is index-unaware, aiming to produce positive absolute returns over the long term with a capital preservation mindset. The Fund's mandate allows it to actively manage its net market exposure – utilising both cash and shorts to help protect clients' capital.

| | 1 Month | Unit Price | Inception (%pa) |
|---------------------------|---------|------------|-----------------|
| Performance (Net of Fees) | -4.49% | 113.32 | 9.75% |

Refer below detailed performance data matrix

Growth of \$10,000



| Top 5 Stock Holdings | Current | Monthly Move |
|---------------------------|---------|--------------|
| Macquarie Group Ltd | 8.7% | -0.2% |
| RIO Tinto Ltd | 8.0% | +8.0% |
| BHP Group Ltd | 7.7% | +7.7% |
| Kina Securities Ltd | 5.7% | -0.3% |
| Judo Capital Holdings Ltd | 5.1% | +0.0% |

| Market Capitalisation Coverage | Current | Monthly Move |
|--------------------------------|---------|--------------|
| Large Caps >=AUD\$7.5b | 43.6% | -1.3% |
| Mid Caps >=AUD\$2b < AUD\$7.5b | 16.3% | -4.6% |
| Small Caps < AUD\$2b | 33.0% | +0.9% |

| Month End Exposures | Current | Monthly Move |
|---------------------------------|---------|--------------|
| Communication Services | 3.2% | +0.1% |
| Consumer | 8.9% | -0.1% |
| Energy | 9.9% | +0.4% |
| Financials | 23.9% | -2.1% |
| Health Care | 6.0% | -1.1% |
| Industrials/Real Estate | 15.7% | -1.1% |
| Materials | 25.3% | +0.5% |
| Number of Positions | 29 | -5 |
| Gross Equity Exposure | 92.9% | -6.0% |
| Cash Weighting | 7.1% | +4.0% |
| Net Equity Exposure | 92.9% | -4.0% |
| Currency Exposure Hedged of AUD | 83.1% | +1.3% |

Commentary

The K2 Global High Alpha Fund returned -4.49% for the month.

During 2022, COVID related supply chain dislocations blended with Russia's invasion of the Ukraine to create an inflation cocktail that was difficult for the market to digest. Risk free rates and risk premiums concurrently increased resulting in lower valuation metrics for most asset classes. As we move into 2023 the inflation cocktail is starting to lose some of its potency. Supply chain bottlenecks are gradually decongesting, and this is coinciding with a reduced level of economic activity. Hence, there is less imperative for businesses to carry "just-in-case" levels of surplus inventory. The resulting downward shift in inventory levels should ensure that goods inflation continues to subside. However, the immediate inflation driver that needs to be resolved is the labour market imbalance. Despite tighter financial conditions, labour demand continues to outstrip supply. Subdued economic activity is leading to an increased number of announced job cuts, however, many businesses continue to sight hiring as a meaningful challenge. Ultimately, corporate profitability will diminish, the pace of interest rate hikes should fade, and, in time, an appetite for risk will return.

Over the past 12 months global Real Estate Investment Trusts (REIT) have delivered a total return of -25%. The weakness in the sector was associated with interest rate hedging programs that exposed cash flow projections to higher financing costs. A number of the large REITs are now trading at significant discounts to book value and this could solicit some takeover interest from entities such as private equity funds. Hence, the Fund acquired positions in Cohen and Steers Inc (CNS US) and Extra Space Storage (EXR US). We have prioritised investments in CNS and EXR since they have conservative balance sheets, low relative valuation metrics and superior growth prospects.

The best performance contributors for the Fund this month were Seven Group (SVW), BHP Group (BHP) and Rio Tinto Ltd (RIO). Macquarie Group (MQG) and Winton Land (WIN NZ) were detractors. During the month the fund sold its holding in Blackstone Inc (BX). There were no new positions added to the Fund.

The median holding for the Fund has a market capitalisation of \$5.0 billion and, using next years' estimates, trades on a PE of 11.6x, generates an ROE of 20.0% and offers a dividend yield of 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 |

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

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

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 | | | | | | | -2.70 | 4.06 | 6.98% | -0.38% |
| Incept. | | | | | | | | | | | | | 237.68 | 264.64 | | |
| Incept. | | | | | | | | | | | | | 9.75%pa | 10.39%pa | 15.86% | -1.30% |

(1) Morningstar Global Markets NR AUD

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