

K2 Global High Alpha Fund

31 October 2022

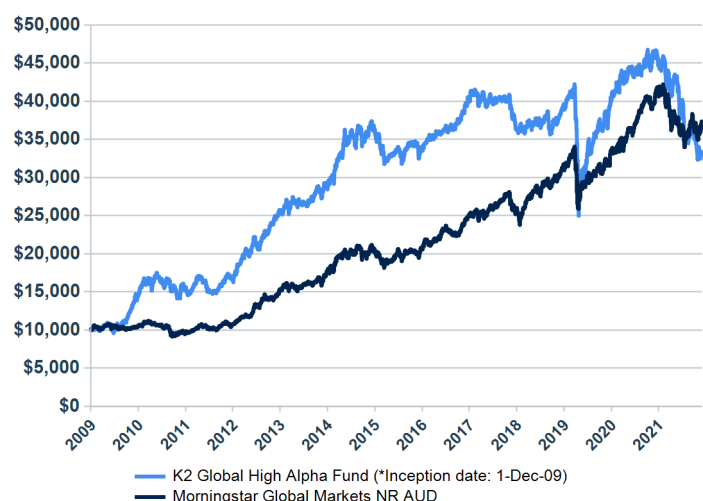


The K2 Global High Alpha Fund is an Absolute Return equities fund. The fund is index-unaware, aiming to produce positive absolute returns over the long term with a capital preservation mindset. The Fund's mandate allows it to actively manage its net market exposure – utilising both cash and shorts to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

	1 Month	Unit Price	Inception (%pa)
Performance (Net of Fees)	2.77%	111.90	9.77%

Refer below detailed performance data matrix

Growth of \$10,000



Top 5 Stock Holdings	Current	Monthly Move
Macquarie Group Ltd	8.9%	+0.7%
Kina Securities Ltd	7.2%	+0.0%
RIO Tinto Plc-Spon Adr	6.6%	-0.3%
BHP Group Ltd-Spon Adr	6.5%	-0.4%
Winton Land Ltd	4.7%	-0.8%

Market Capitalisation Coverage	Current	Monthly Move
Large Caps >=AUD\$7.5b	40.3%	-1.4%
Mid Caps >=AUD\$2b < AUD\$7.5b	22.9%	+7.4%
Small Caps < AUD\$2b	34.0%	-5.5%

Month End Exposures	Current	Monthly Move
Communication Services	3.2%	-5.8%
Consumer	8.8%	+2.3%
Energy	9.9%	+1.6%
Financials	27.0%	-2.4%
Health Care	9.8%	+1.8%
Industrials/Real Estate	18.1%	-0.1%
Materials	19.0%	+3.2%
SHORTS	-0.8%	-0.8%
Number of Positions	33	+2
Gross Equity Exposure	98.2%	+1.3%
Cash Weighting	3.3%	+0.2%
Net Equity Exposure	96.7%	-0.2%
Currency Exposure Hedged of AUD	85.2%	+0.4%

Commentary

The K2 Global high Alpha Fund returned 2.77% for the month.

The Reserve Bank of Australia (RBA) continues to demonstrate a pragmatic approach to monetary policy. It has motioned towards more gradual rate rises of 25 basis points whereas the US Federal Reserve (FED) and the Reserve Bank of New Zealand (RBNZ) have been opting for aggressive 75 basis point hikes. As a result, we believe that the RBA is moving towards a period of interest rate inaction. These phases are embraced by market participants and strong equity returns typically follow. On the other hand, we envisage that, if the FED and the RBNZ continue with a more heavy handed approach, economic consequences will be more amplified. Accordingly, we believe that Australia will be able to sustain a stronger and more prolonged phase of economic activity than peer developed nations.

Macquarie Group (MQG) is the largest holding for the Fund. MQG operates both annuity style and market facing businesses. Despite the uncertain trading conditions globally, MQG is positioning itself for growth. Over the past year MQG has expanded its workforce by 12% and has built up surplus capital of more than \$12 billion. We would expect MQG to redeploy capital aggressively as interest rates peak and volatility subsides. The Fund also holds large positions in Rio Tinto Plc (RIO) and BHP Group (BHP). Both RIO and BHP have strong balance-sheets and are exhibiting improved levels of capital allocation disciplines. Historically, when commodity prices have surged, RIO and BHP have acquired assets at peak prices. Today, both companies are remaining relatively patient, and this should ensure that shareholders receive optimal returns on their capital. As we move into 2023, it is likely that China will gradually fade its zero COVID policy thus supporting base metal and ferrous material prices.

The best performing holdings for the Fund this month were Stanmore Resources (SMR AU), Macquarie Group (MQG) and Moelis & Co (MC US) which rose 33%, 11% and 21% respectively. Maas Group (MGH) and Winton Land (WIN NZ) were the largest detractors. During the month the Fund added Intercontinental Exchange (ICE US) and JB Hi-Fi (JBH AU). Alphabet (GOOGL US) was sold. The median holding for the Fund has a market capitalisation of \$3 billion and, using next years' estimates, trades on a PE of 10.9x and generates an ROE of 16%.

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

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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									-3.92	6.39	8.11%	-0.16%
												Incept.	233.45	272.79		
												Incept.	9.77%pa	10.72%pa	15.94%	-1.28%

(1) Morningstar Global Markets NR AUD

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