

K2 Australian Fund

31 July 2025



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)	-3.71%	158.67	9.46%

Refer below detailed performance data matrix

Top 5 Stock Holdings	Current	Monthly Move
Macquarie Group Ltd	11.4%	-1.0%
SGH Ltd	9.2%	+1.0%
Summerset Group Holdings Ltd	7.2%	+1.2%
Kina Securities Ltd	7.1%	+1.5%
Bendigo And Adelaide Bank	6.6%	+0.9%

Market Capitalisation Coverage	Current	Monthly Move
Large Caps>=AUD\$7.5b	54.0%	+8.5%
Mid Caps>=AUD\$2b<AUD\$7.5b	30.0%	-0.5%
Small Caps<AUD\$2b	21.8%	+3.7%

Month End Exposures	Current	Monthly Move
Consumer	8.5%	+1.7%
Energy	4.0%	-0.4%
Financials/Real Estate	51.0%	-0.4%
Health Care	16.9%	+3.3%
Industrials	9.2%	+1.0%
Information Technology	2.2%	+2.2%
Materials	14.0%	+4.3%
Number of Positions	22	+1
Gross Equity Exposure	105.7%	+11.8%
Cash Weighting	-5.7%	-11.8%
Net Equity Exposure	105.7%	+11.8%

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

K2 Australian Fund returned -3.71% for the month.

The Reserve Bank of Australia (RBA) was seen as the central bank that was most likely to loosen policy in July. However, the board decided to take a wait-and-see approach. The RBA believes that conditions in the labour market are still tight, unit labour costs remained high, and underlying inflation would hold above 2.5% near-term. The RBA wants to ease monetary policy in a "cautious and gradual manner" to ensure that its inflation and full employment objectives are met. Although the RBA deems that its current stance on monetary policy is modestly restrictive, some indicators were still proving to be a little stronger than anticipated. Hence, the board determined that it could wait a little longer before reducing interest rates again. Despite this backdrop, the Fund had fourteen positive contributors to performance with an average share price move of +5%. Unfortunately, these gains were more than offset by three holdings that on average declined by -28%. The worst detractor was Lifestyle Communities (LIC).

LIC is a company that we have wanted to acquire for many years. At face value LIC met four of our five investment pillars. However, LIC's valuation was always beyond our level of comfort. But in early 2024, LIC raised \$275 million of new equity at \$16 per share. Then six months later a group of LIC homeowners lodged applications with the Victorian Civil and Administration Tribunal (VCAT) disputing certain provisions within LIC's Residential Site Agreement (RSA). LIC's share price subsequently halved. Having lost nearly \$1 billion in market capitalisation, we started to build a position in LIC. It was our understanding that senior legal advice over the past two decades had consistently determined that LIC's RSA was in line with regulations. Therefore, to our mind, the worst-case scenario seemed to be that LIC's \$245 million fair value assessment of future deferred management fees (DMF) needed to be written down and recognised revenue would decline. Hence, we determined that the \$1 billion drop in market value of LIC provided us with a large margin of safety. Unfortunately, VCAT ruled that the DMF clause in LIC's RSA was void since it did not enable a prospective resident to accurately calculate the costs over the life of the agreement. The market value of LIC promptly sank another \$300 million. So much for decades of fees for legal wisdom. LIC looks to be trading well below replacement value, but this offers nothing to the growing cohort of momentum speculators. In fact, LIC is now at risk of being removed from the ASX 200. Who will be the buyer of LIC shares if passive funds become sellers?

HMC Capital (HMC) was also a detractor to performance. A year ago, HMC stated that it believed it had the potential to develop a 15GW Energy Transition platform. By year end HMC had agreed to acquire 6.2GW of operational and development capacity which, once fully built out, could provide a \$12 billion AUM opportunity. Accordingly, HMC was aiming to raise \$2 billion for its inaugural Energy Transition Fund by the end of 2025. This month, HMC announced that it was changing tact regarding its Energy Transition platform. The 15GW aspiration was dropped, and a range of options regarding the original 6.2GW portfolio were being evaluated. We are not disappointed with this outcome as we were unclear whether the Energy Transition portfolio had the ability to deliver high quality recurring revenue over the next five years. In addition, we have always assumed that the portion of group AUM in Energy Transition would be less than 5%. Hence, the -20% decline in HMC's price following this month's announcement surprised us. We believe that HMC is offering immense value and is now trading on valuation metrics that are half that of peer alternative asset managers like MA Financial, Macquarie Group, Charter Hall, and Blackstone.

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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	13.80%	-1.68%
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	2.37%	-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	1.19%	-0.20%
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	4.22%	-0.69%
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	4.27	0.21	2.20	-2.73	4.20	-3.99	-6.68	18.74	1.96	3.36	26.41	13.23	2.87%	-0.77%
2025/26	-3.71												-3.71	2.59	-0.14%	0.00%
Incept.													933.75	776.82		
Incept.													9.46%pa	8.77%pa	21.81%	-4.12%

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

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