

K2 Australian Fund

31 December 2023

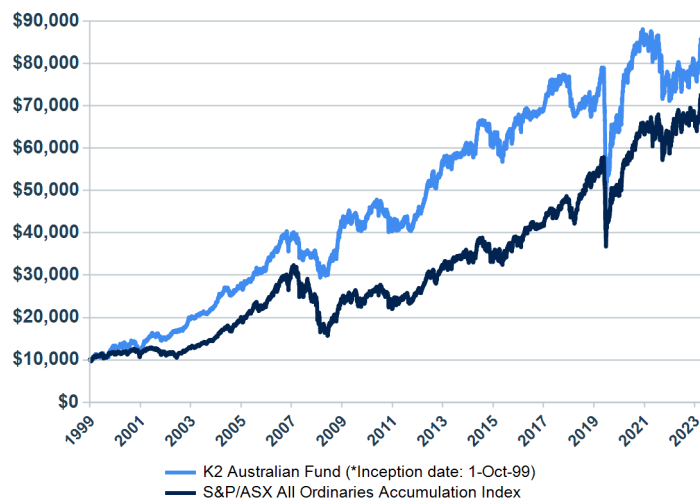


The K2 Australian Fund is an Absolute Return equities fund. The fund is index-unaware, aiming to produce positive absolute returns over the long term with a capital preservation mindset. The Fund's mandate allows it to actively manage its net market exposure – utilising both cash and shorts to help protect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

	1 Month	Unit Price	Inception (%pa)
Performance (Net of Fees)	7.84%	149.54	9.26%

Refer below detailed performance data matrix

Growth of \$10,000



Top 5 Stock Holdings	Current	Monthly Move
Seven Group Holdings Ltd	11.1%	-1.0%
Macquarie Group Ltd	10.4%	+0.3%
BHP Group Ltd	8.5%	+0.3%
RIO Tinto Ltd	6.9%	+0.2%
Corporate Travel Management	5.7%	+0.2%

Market Capitalisation Coverage	Current	Monthly Move
Large Caps >=AUD\$7.5b	64.7%	+5.1%
Mid Caps >=AUD\$2b < AUD\$7.5b	29.0%	+4.0%
Small Caps < AUD\$2b	16.5%	-0.6%

Month End Exposures	Current	Monthly Move
Communication Services	4.7%	+0.1%
Consumer	11.4%	+2.0%
Energy	8.2%	+0.2%
Financials/Real Estate	34.4%	-0.9%
Health Care	8.1%	+1.3%
Industrials	16.6%	-0.9%
Materials	26.9%	+6.7%
Number of Positions	28	+3
Gross Equity Exposure	110.2%	+7.8%
Cash Weighting	-10.2%	-9.2%
Net Equity Exposure	110.2%	+9.2%

Commentary

The K2 Australian Fund returned 7.84% for the month.

The investing climate in Australia is improving. The headline inflation rate has almost halved since the end of 2022 and further declines should be expected over the coming months. Food prices have been declining, petrol prices have fallen and wholesale electricity prices have collapsed. As a result, the Reserve Bank of Australia (RBA) should be able to move to the sidelines. An improved interest rate outlook has supported the Australian housing market with residential property prices having risen now for ten consecutive months. The Australian share market also moved 12% higher over the past two months. Notwithstanding these asset price moves, consumer and business confidence in Australia has remained at uncharacteristically subdued levels. We would anticipate that the animal spirits of the Australian consumer and business leaders will be rekindled in 2024 and this should be beneficial for businesses such as Macquarie Group (MQG).

MQG generated more than \$10 billion of revenue from Australian external customers in 2023 and this has grown by close to 7%pa over the past two decades. In addition, MQG has more than 10,000 staff located in Australia. MQG's international operations have grown substantially faster than the local franchise however, Australia provides an important growth engine for the group. MQG's Banking and Financial Services (BFS) division has built a loan portfolio of \$134 billion; these are predominantly Australian home and business loans and have grown by almost 20%pa over the last ten years. MQG has also expanded its Australian investment platform business to \$125 billion and is now the 4th largest player in the market with a share of 12.7%. BFS is therefore highly leveraged to an improved desire for Australian's to embrace risk assets.

MQG is also favourably exposed to the recovery in global investors' appetite for risk. Investors are increasingly conditioning themselves for an interest rate turning point in 2024 and this would enable MQG to conclude a number of transactions that are in the pipeline. MQG has tended to generate more performance fees during the phase following a peak in interest rates. It is also not lost on us that peer global alternative asset managers like Blackstone Inc and Brookfield Asset Management have seen their share prices outperform MQG's by more than 20% over the past six months are now both trading on 25x next years' expected profit; ten PE points more than MQG.

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

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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	13.58%	-1.65%	
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	2.29%	-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	1.14%	-0.19%	
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	4.10%	-0.68%	
2023/24	3.82	2.11	-1.35	-3.94	4.63	7.84							13.34	7.95	-2.60%	-0.35%	
													Incept.	757.06	624.23		
													Incept.	9.26%pa	8.51%pa	23.39%	-4.42%

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

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