

K2 Global High Alpha Fund

30 April 2023

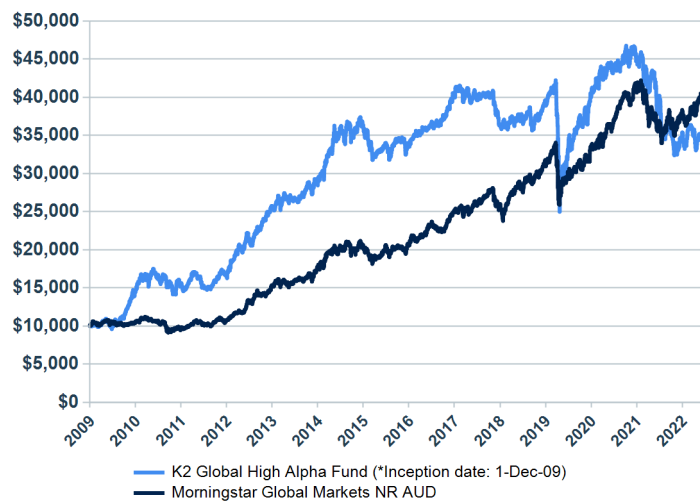


The K2 Global High Alpha Fund is an Absolute Return equities fund. The fund is index-unaware, aiming to produce positive absolute returns over the long term with a capital preservation mindset. The Fund's mandate allows it to actively manage its net market exposure – utilising both cash and shorts to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

| | 1 Month | Unit Price | Inception (%pa) |
|---------------------------|---------|------------|-----------------|
| Performance (Net of Fees) | 0.79% | 116.73 | 9.74% |

Refer below detailed performance data matrix

Growth of \$10,000



| Top 5 Stock Holdings | Current | Monthly Move |
|---------------------------|---------|--------------|
| Macquarie Group Ltd | 7.6% | +0.5% |
| RIO Tinto Ltd | 7.1% | -0.2% |
| BHP Group Ltd | 6.8% | -0.2% |
| Kina Securities Ltd | 5.7% | +0.1% |
| Woodside Energy Group Ltd | 4.8% | +1.2% |

| Market Capitalisation Coverage | Current | Monthly Move |
|--------------------------------|---------|--------------|
| Large Caps >=AUD\$7.5b | 39.7% | 0.0% |
| Mid Caps >=AUD\$2b < AUD\$7.5b | 20.4% | +0.0% |
| Small Caps < AUD\$2b | 33.4% | -2.6% |

| Month End Exposures | Current | Monthly Move |
|---------------------------------|---------|--------------|
| Communication Services | 3.2% | +0.2% |
| Consumer | 9.8% | +0.8% |
| Energy | 6.8% | +1.2% |
| Financials/Real Estate | 17.8% | -8.7% |
| Health Care | 7.9% | -0.1% |
| Industrials | 14.9% | +3.4% |
| Materials | 33.1% | +0.6% |
| Number of Positions | 25 | -4 |
| Gross Equity Exposure | 93.6% | -2.5% |
| Cash Weighting | 6.4% | +2.5% |
| Net Equity Exposure | 93.6% | -2.5% |
| Currency Exposure Hedged of AUD | 81.1% | -1.1% |

Commentary

The K2 Global High Alpha Fund returned 0.79% for the month.

The Global economy is expected to deliver meagre economic advancement over the coming year; consensus estimates are that Global GDP growth will be just 1.8%. The last time economists were so bearish about the world's economic fortunes, excluding the COVID phase, was during the Global Financial Crisis. It is also worth noting that today the ten largest economies have an average 10 year bond yield of 2.0% whereas the average official cash rate is 4.5%; an inversion of 2.5%. The last time the inversion was so extreme was during the GFC. Typically such conditions would ensure that monetary policy worldwide was on the cusp of being loosened. Unfortunately, today we are not so lucky. The global inflation rate for the year ahead is expected to be a touch under 6%. Hence, although economic conditions are sanguine, most central banks are unlikely to aggressively reduce interest rates. That said, we also believe that the central banks will not be in a rush to tighten monetary policy much further. The labour market is finally showing some early signs of rebalancing. In the US for instance, so far this year the number of job opening has already contracted by 1.6 million and there have been 330,000 announced job cuts. These conditions are normally a precursor to a lift in the unemployment rate.

The Australian equity market continues to offer reasonable value. The ASX 200 is trading on 14.7x next years' earnings and the dividend yield is 4.3%. Australia's economy is projected to grow by 1.7% over the coming year and inflation is expected to expand by 4.7%. Everything seems to be moving in the right direction. The housing market is stabilising, consumer confidence is slowly improving and demand for labour appears to be re-balancing. The probability of soft landing is improving and this would be advantageous for the equity market.

The best performing holdings for the Fund this month were MA Financial Group (MAF), Lundin Gold Inc (LUG CN) and Maas Group (MGH). Detractors to performance were Stanmore Resources (SMR), Rio Tinto (RIO) and BHP Group (BHP). During the month the Fund acquired a new position in Johns Lyng Group (JLG). The Funds' holding in Extra Space Storage (EXR US) was sold. The median holding of the Fund has a market capitalisation of \$3.5 billion and, using expectations for the year ahead, has a PE of 10.9x, an ROE of 16.6% and a dividend yield of 2.8%.

| 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 | 6.03 | -4.49 | 7.16 | -2.84 | -1.84 | 0.79 | | | 0.23 | 15.64 | 6.19% | -0.64% |
| | | | | | | | | | | | | Incept. | 247.84 | 305.21 | | |
| | | | | | | | | | | | | Incept. | 9.74%pa | 10.99%pa | 15.81% | -1.32% |

(1) Morningstar Global Markets NR AUD

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