



MINOTAUR GLOBAL OPPORTUNITIES FUND

Quarterly Report

March 2025



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The March quarter was our toughest yet, with much of the gains made in January and February wiped out in March. Market volatility has skyrocketed. Low-volatility stocks are outperforming the broader market and living up to expectations of doing well when things sour. Two of the largest low-volatility ETFs - the Invesco S&P 500 low-volatility ETF and the MSCI USA Min-Vol Factor ETF - are posting their best relative performance in a few years.

US stocks have gone from scaling record highs to flashing recession worries in a matter of weeks. What began as a mild decline in expensive tech stocks has morphed into a full-scale flight from the US, with the Trump administration indicating that it's prepared to handle some distress in both the market and the economy.

With this level of uncertainty, our use of AI has helped to keep our reactions and biases in check. It's generally easy for fund managers to tell you about all the stocks they love and spin you a good story on a great quality business. But the art of selling is a far more difficult discipline, and AI has helped us here.

Using AI to strengthen selling and shorting

Recently, the Minotaur team has been thinking a lot about confirmation bias. We humans, despite all our strengths, have an underlying tendency to focus on and put our faith in evidence that fits with our existing beliefs. In investing, this is particularly pertinent, as we tend to seek out information that supports our thesis on the market or individual stocks, rather than contemplating why we may be wrong.

So, what if we could use our AI superpower, Taurient, to not only hold us accountable but keep confirmation bias at bay, helping us to move quickly when our thesis no longer has legs? As Mark Twain penned, *'It ain't what you don't know that gets you into trouble. It's what you know for sure that just ain't so.'*

With this in mind, we developed an AI-generated "Thesis Validation/Invalidation Report", which enables us to quickly understand the aspects of an earnings report that either support or challenge our thesis on any given company.

For example, we shorted Zillow in August 2024, the US' answer to REA Group. We believed that changes in real estate brokerage commissions in the US would put downward pressure on buyers agent commissions, negatively impacting Zillow's business (which relies heavily on revenue from buyers agents' purchasing leads). We were wrong.

Taurient, unlike an analyst, isn't afraid of hurting our feelings, outlining that Zillow's update in November strongly challenged our thesis. The recommendation? That we "abandon our short on Zillow"... Which we did, and was ultimately the right decision. We have now incorporated this into our research process for every stock in the portfolio - helping us to maintain conviction in our positions, but also keep us humble enough to quickly move when we get it wrong.

More recently, we sold out of our position in MongoDB on its result using this report. The stock's share price has plummeted 20% since then. We also trimmed our position in Prysmian after Taurient predicted it was likely to downgrade its long-term earnings guidance at its capital markets day at the end of March... which it did.

Understanding that confirmation bias can sway investors' decision-making has also aided in our ability to pick shorts. Analysts, we've come to realise, naturally seek information confirming their existing thesis – a tendency amplified in institutional settings where admitting error could carry career risks. This reluctance to accept negative signals creates opportunity.

We call this "Bad News Drift" - when investors are slow to react to negative news, initially waiting a few days or weeks to see if anything changes before making a decision. Sure, there may be an initial sell-off on negative news, but often it takes several trading days or even weeks to see its full impact.

With "Bad News Drift" in mind, we've shorted WiseTech Global, Tesla and Bumble, all of which have been strong contributors to the Fund. In the case of Australia's most expensive tech company, the secret private life of WiseTech CEO and founder, Richard White, caused some initial pain in the company's share price. However, it was ultimately director resignations and an earnings downgrade that pushed the company off a cliff, with WiseTech's share price plummeting ~30% since mid-February. We have since closed out this short.

Meanwhile, if Elon Musk slinging a Nazi salute and a chainsaw on stage weren't a death knell for Tesla, its sales plummeting while Chinese producers go from strength to strength certainly has been. We've been shorting the stock since early February, and while it's been a volatile ride, its share price is down 23% since then.

Bumble, while certainly less dramatic, faces its own death spiral, and its turnaround efforts are unlikely to reverse fundamental declines in user growth, monetisation, and market share. We see no reason why this company will continue to exist in five years, particularly given competition from its rivals Tinder and Hinge. The stock was down 22% before we shorted it, but has fallen another 33% since.

Trump 2.0 - how we're positioning and some key holdings

When it comes to our long portfolio, there are three distinct ways we have positioned which have helped in the world of Trump 2.0. This positioning has not just been in reaction to the developing change in the world order. Rather, two big decisions have been at play in the portfolio for the majority of time it's been up and running - Underweight US and Overweight China. Our one big reactionary call was to move into European defence, and thanks to AI, we were sufficiently early on that call.

Since the Fund's inception, we've owned some of the Magnificent/Maleficent 7, but have always been underweight relative to the index. Currently, our US positions are concentrated in AI-leveraged names and financial stocks that we believe are undervalued. That said, with Trump's latest policy moves, the prospect of recession seems much more likely. If we see a recession in the US, we may get hit on these names, but we are happy to take that risk for now.

Playing the reshoring thematic through IperionX

One stock that we like in this environment, which is a beneficiary of the tariff situation, is IperionX. This ASX-listed small cap is disrupting the titanium metal market through patented technology that produces titanium products at lower cost and with better environmental credentials than incumbent processes. While titanium metal's superior properties (high strength, light weight, corrosion resistance) make it ideal for aerospace, defence, and automotive applications, its broad adoption has been limited by high production costs and difficult workability.

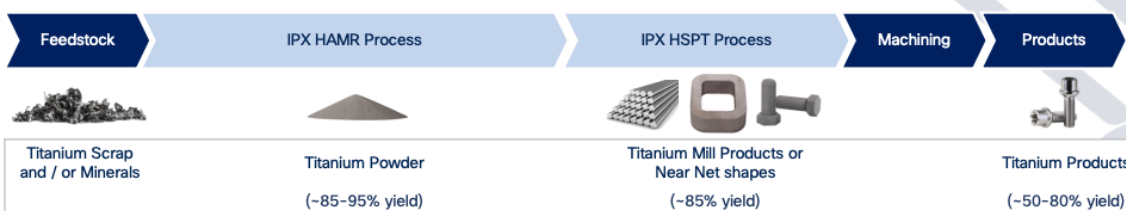
IperionX owns a technology known as HAMR (Hydrogen Assisted Metallothermic Reduction), which addresses these limitations by producing titanium powder from scrap at temperatures of ~700°C vs. the traditional Kroll process at ~1,300°C, significantly reducing energy costs and emissions.

IperionX' simple, low waste, vertically integrated solution

Current Industry



IPERIONX



Source: IperionX Presentation, August 2024

The company's manufacturing centre in Virginia leverages this titanium powder to produce both traditional metal products and "near-net shape" components using their patented HSPT (Hydrogen Sintering and Phase Transformation) technology. This is a key differentiator - the ability to create parts closer to their final form reduces waste and machining costs for customers.

Overall, traditional titanium manufacturing results in yields of just 5-15%, while IperionX's process can achieve yields of 50-80%. For customers, this means lower raw material costs, reduced machining time, and improved working capital - a compelling value proposition beyond just getting titanium at a good price.

The US market opportunity is significant and has become even more compelling post the tariff announcements. Despite consuming ~30% of global titanium metal, the US is now wholly reliant on imports after its last domestic producer closed in 2020. China and Russia control 70% of global supply, creating clear national security concerns given titanium's critical role in defence applications. Multiple US government initiatives aim to reshore production, evidenced by the US\$60 million in Department of Defense grants recently awarded to IperionX. The company actually beat out existing incumbent competitors such as Carpenter Technology, ATI and Howmet, which have market caps of US\$8.5 billion, US\$6.4 billion and US\$49.9 billion, respectively. Japan, which faces 24% tariffs, is a key source of titanium sponge, which could lift these competitors' feedstock costs.

In addition, customer adoption is accelerating. Ford recently signed a US\$11 million supply agreement starting in 2025, providing key validation. The company has numerous other engagements with aerospace and defence customers.

IperionX is also already beating production estimates - initial production of 125tpa has now been confirmed to be exceeded at the Virginia facility in 2025, which has infrastructure ready to support expansion to 2,000tpa. Management targets 10,000tpa by 2030, representing just ~10% of the current US market.

IperionX trades at an early-stage valuation despite having significantly de-risked its technology through pilot production and customer validation. The Virginia facility is fully funded, removing near-term financing risk. While execution risk remains as they scale production, we see a credible pathway to becoming a major player in the US titanium market. This investment exemplifies our focus on finding companies with proprietary technology addressing clear market needs, strong competitive advantages, and multiple avenues for growth.

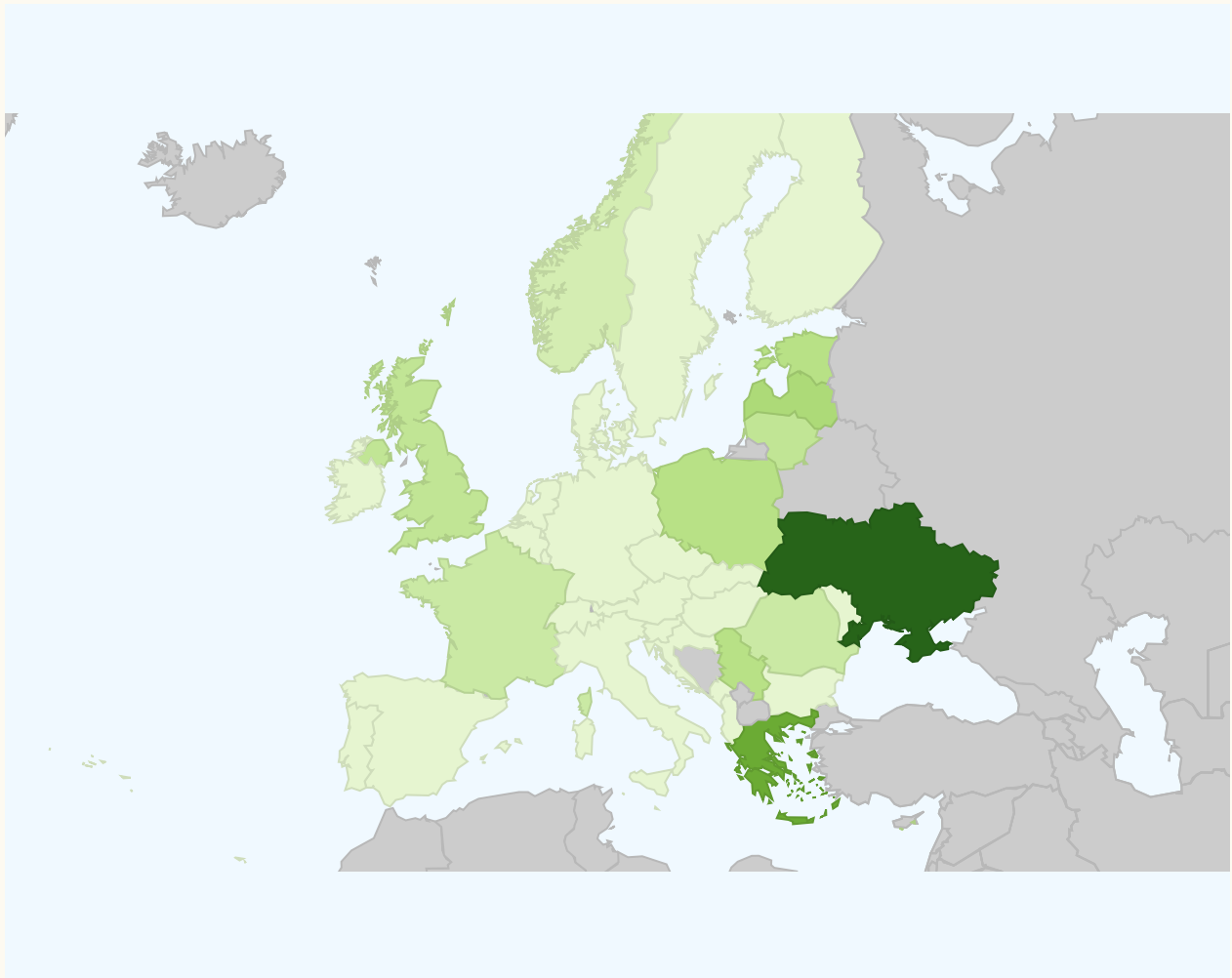
Rheinmetall: Europe's Arsenal

February's Munich Security Conference was a stark reminder of the changing world order, with JD Vance sparking a seismic shift in European defence priorities. Within days, Rheinmetall's CEO had 42 meetings with Prime Ministers and Defence Ministers. Shortly after, incoming German Chancellor Friedrich Merz declared Germany would invest "whatever it takes" in defence.

We initiated our position in Rheinmetall just in time to capitalise on Europe's urgent pivot from American military dependence to continental self-reliance, a decision that has already yielded a 40% return since early February.

European Defence Spending as % of GDP





Three factors position Rheinmetall to capture an outsized share of Europe's defence renaissance:

1. Land Domain Dominance Amid a Continued Ukraine/Russia War

Ukraine's military now requires 3 million artillery rounds annually during conflict and projects needing 1.5 million annually for a decade after any ceasefire - translating to a potential €50 billion opportunity. This reality is driving massive capacity expansion across Europe, with Germany taking the lead.

Rheinmetall's vertical integration in ammunition production provides a sustainable advantage in a market where powder remains a critical bottleneck. The company controls the entire ammunition value chain from powder production through to delivery systems, an integration that competitors lack and explains their superior 19% margins in defence operations.

The company is doubling its artillery shell production to over 1 million rounds annually by year-end, expanding its Unterlüss facility from 250,000 to 500,000 rounds, while additional facilities in Lithuania add another 100,000+. When Rheinmetall's German rocket motor facility comes online in 2027, it will produce up to 5,000 motors annually, representing potential revenue of €2.5-3 billion per year from this segment alone.

2. A Pan-European Defence Platform

Rheinmetall's vehicle systems division has transformed from a German-centric business to a pan-European platform. New factories and joint ventures span from the UK to Lithuania and Italy to Hungary, creating what CFO Klaus Neumann calls a "true European defence ecosystem." This geographic diversification reduces political risk while expanding Rheinmetall's capture of the defence spending surge.

The company's CEO projects capturing 20-25% of the expanded European defence market, significantly above their current 17% share, precisely because land domain systems (Rheinmetall's specialty) sit at the centre of Europe's urgent military modernisation.

3. The Cash Conversion Machine

What truly distinguishes Rheinmetall isn't just growth but capital efficiency. The company generated over €1 billion in free cash flow in 2024 (a 71% cash conversion rate), despite significant growth investments. This exceptional performance stems from favourable contract structures, with government customers providing substantial prepayments. Combined with convertible bond conversions, management expects to be debt-free by year-end, creating additional capacity for M&A or capacity expansion.

Exceptional Visibility into Future Growth

Rheinmetall delivered impressive 2024 results with €9.8 billion in sales (+36% year-over-year) and €1.478 billion in operating profit (+61%), achieving a 15.2% operating margin. Its defence division, which constitutes the vast majority of its operations, achieved a stunning 19% margin while growing at more than 50%, contrasting with flat performance in its civilian businesses. These results demonstrate the company's ability to both grow rapidly and improve profitability simultaneously.

This performance translates directly into future visibility. The company's €55 billion backlog provides an extraordinary runway for continued growth. More importantly, CEO Armin Papperger expects to add roughly €40 billion of new nominations in 2025 from current negotiations across Europe, delivering a book-to-bill ratio significantly above 1x for consecutive years. As Papperger stated during their earnings call, "The task that we have now for the next years is much, much bigger than the task that we had three years ago."

Valuation: Has the Market Already Priced In the Defence Renaissance?

While European defence stocks have rallied sharply since the start of last year, valuation expansion has outpaced earnings upgrades. The sector trades at approximately 20x 2027 PE, up from 12x at the start of the year. However, our conviction remains strong for three reasons:

- Consensus estimates haven't incorporated higher GDP spending targets, instead modelling on the current levels.
- Rheinmetall's execution speed outpaces competitors, helping it to capture market share. For example, it built a new ammunition plant in 14 months versus industry timeframes of 3-4 years.
- Most generalist investors remain underexposed, with 31% having no allocation and just 7% materially overweight European defence, according to a recent Morgan Stanley survey.

A Catalyst Ahead

The upcoming NATO summit in June represents the next major catalyst. Analysts expect the alliance to formalise higher defence spending targets of 3-3.5% of GDP. Following the summit, individual European nations will make more specific capability commitments, potentially triggering another wave of major contract awards by Q3.

Even more consequential for Rheinmetall than the volume of spending is where Europeans choose to direct their procurement euros. The EU has established a target that at least 65% of defence expenditure should remain in Europe, a dramatic shift from historical practices where 60-70% of equipment was sourced from American suppliers.

Rheinmetall now comprises 7% of our portfolio - a substantial position reflecting our high conviction. We believe the market has recognised the defence spending surge but has not fully priced in the sustainability of higher margins, the rapid acceleration in order conversions, or the potential for earnings beats as consensus catches up to the new reality. While there are risks, the structural shift in European defence priorities appears irreversible - a continental-scale rearmament that will accelerate beyond most analysts' current models.

Outlook

Despite the uncertain geopolitical environment and ongoing volatility that has hounded markets in 2025, we believe the portfolio is well-positioned for the year ahead and have been using the recent sell-offs as an opportunity to load up on some of the market's mispriced gems. We are using our AI superpower, Taurient, to help guide us through the recent turmoil, distinguish signal from noise, and keep our behavioural biases in check when investors need it most. Taurient gives us another perspective and potentially a dissenting voice whose arguments we need to combat. As Plutarch says, *"Know how to listen, and you will profit even from those who talk badly"*.

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<https://www.minotaurcapital.com/reports/quarterly/2025-03>

For investor enquiries, contact invest@minotaurcapital.com.

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