



KSM - K2 Australian Small Cap Fund (Hedge Fund) Monthly Report - 31 August 2016

Australian Small Cap Market Review

The K2 Australian Small Cap Fund returned 3.05% for the month of August while the S&P/ASX Small Ordinaries Accumulation Index returned -1.56%.

The domestic reporting season was a clear focus for investors this month and, as usual, brought with it higher share price volatility. Overall, commentary surrounding the operating environment was mixed, and given the impact from the Federal Election and Brexit, limited forward guidance was provided.

Some broad observations across the economy showed that consumer, tourism and housing related companies are experiencing buoyant conditions while the low interest rate environment is making life difficult for banks, insurers and selected diversified financials. Despite strong share price rallies within the mining and mining services space, profits are still experiencing negative momentum however there appears to be some 'green shoots' on the horizon which the market is focussed on.

The best performers for the Fund during the month were not surprisingly those which reported stellar results; Think Childcare, OneView Healthcare, Baby Bunting and MotorCycle Holdings. These have been core holdings for the Fund and we continue to believe these companies are well placed to deliver shareholder returns.

Portfolio Insights: Vita Group

Vita Group (VTG) has been a holding for the Fund for almost 2 years and produced another strong profit result with expectations of continued growth into the future. VTG is an electronic and telecommunications retailer that operates across six brands; Fone Zone, One Zero, Next Byte, iConcierge, Vita Networks and Sprout Accessories. It also operates Australia's largest network of Telstra Shops and Telstra Business Centres and it is an authorised Apple Premium Reseller via its Next Byte brand.

VTG delivered a strong result across all metrics in 2016. Over the year, revenue grew +20%, EBITDA +55% and NPAT +75%, with dividends matching profit growth. Looking forward, we are confident that the company has a strong platform for growth driven by improving store productivity, optimising their retail footprint, and an exciting product pipeline. Acquisitions are also expected to contribute to growth in 2017 with strong cash flow an additional key feature. Despite such strong growth on offer from an enviable market position, the company's valuation is trading in-line with ASX Small Industrials. We believe that if the company continues to execute its strategy, then shareholders will be rewarded.

Outlook

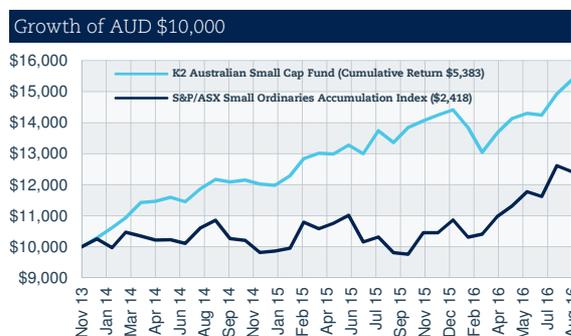
Our view is that outside of major economic shocks, earnings are the strongest driver of share prices. As always, the reporting season gives investors key insights into the investment environment and also the quality and quantity of earnings for companies in which they invest. There were no major negative earnings surprises for the companies the Fund owns and we feel the investment environment remains conducive to delivering solid returns. The portfolio remains well exposed to the Consumer Sector as we believe that earnings in this space will continue to surpass expectations.

We continue to find good opportunities within the small cap space and this is the key driver of our net equity exposure, currently 95%.

Top 5 Stock Contributions - August

Largest	AMA Group Ltd, Baby Bunting Group Ltd, Motorcycle Holdings Ltd, Oneview Healthcare PLC, Think Childcare Ltd
Smallest	Capilano Honey Ltd, Gateway Lifestyle, Japara Healthcare Ltd, Medical Developments International, PWR Holdings Ltd

Performance to 31 August 2016 (net of fees)	
1 Month	3.05%
3 Months	7.57%
6 Months	17.90%
1 Year	15.15%
Since Inception (pa)	16.95%



Returns are based on NAV per unit plus distributions reinvested net of management fee and performance fee accruals. The method for calculating the NAV is set out in the Fund's PDS.

Fund Details (Unaudited)	
NAV Per Unit:	A\$2.70
Fund Size:	A\$23.4m
Start Date:	01-Dec-13

Top 5 Holdings	Sector	%
Medical Developments International	Cons. Non-Cyc	4.6
Baby Bunting Group Ltd	Cons. Cyclical	4.2
Capilano Honey Ltd	Cons. Non-Cyc	3.3
Think Childcare Ltd	Cons. Non-Cyc	3.3
AMA Group Ltd	Cons. Cyclical	3.3

Sector Exposure %			
	Long	Short	Net Equity
Basic Materials	1.0	-	1.0
Communication	9.3	-	9.3
Cons. Cyclical	21.3	-	21.3
Cons. Non-Cyc	30.9	-	30.9
Financial	20.3	-	20.3
Industrial	4.5	-	4.5
Technology	7.8	-	7.8
Total Equity	95.1	-	95.1
Total Cash			4.9
Total Equity and Cash Exposure			100.0

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