

K2 Australian Small Cap Fund (Hedge Fund)

30 September 2023

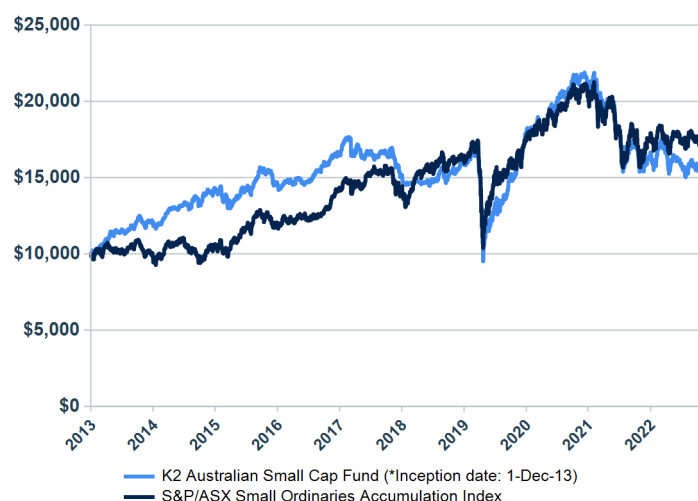


The K2 Australian Small Cap Fund is an Absolute Return equities fund. The fund is index-unaware, aiming to produce positive absolute returns over the long term with a capital preservation mindset. The Fund's mandate allows it to actively manage its net market exposure – utilising both cash and shorts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

	1 Month	Unit Price	Inception (%pa)
Performance (Net of Fees)	-1.49%	2.16	4.56%

Refer below detailed performance data matrix

Growth of \$10,000



Top 5 Stock Holdings	Current	Monthly Move
Seven Group Holdings Ltd	9.8%	+1.5%
Summerset Group Holdings Ltd	6.0%	+0.4%
Stanmore Resources Ltd	5.3%	+1.4%
Region Re Ltd	4.9%	+1.0%
Corporate Travel Management	4.9%	-0.2%

Market Capitalisation Coverage	Current	Monthly Move
Large Caps >=AUD\$7.5b	9.8%	+1.5%
Mid Caps >=AUD\$2b < AUD\$7.5b	47.2%	+3.3%
Small Caps < AUD\$2b	39.4%	+6.0%

Month End Exposures	Current	Monthly Move
Consumer	10.2%	0.0%
Energy	7.0%	+1.8%
Financials/Real Estate	33.2%	+6.9%
Health Care	6.0%	+0.4%
Industrials	23.4%	+2.0%
Materials	17.0%	-0.2%
Number of Positions	31	+2
Gross Equity Exposure	96.9%	+10.8%
Cash Weighting	3.1%	-10.8%
Net Equity Exposure	96.9%	+10.8%

Commentary

The K2 Small Cap Fund returned -1.49% for the month.

During the month the Australian Government released its White Paper on Jobs and Opportunities. The goal is to create more employment prospects for more people in more places. However, to our mind, the more immediate challenge is addressing the erosion in productivity. Over the past year, unit labour cost growth has accelerated whereas the growth in earnings per hour worked has slowed. As a result, the measure of labour productivity has declined by 4% over the year and is now back at levels last seen in 2015. So how does Australia pivot to producing more whilst using less? Rebalancing the labour market would surely help. In recent times, a number of bottlenecks have caused labour demand to outstrip supply. However, there are some signs that labour demand is starting to taper. The most recent SEEK Employment report showed that the volume of job advertisements were 20% lower than last year. In addition, the last ABS release revealed that the number of job vacancies were 15% below a year ago. There are also signs that labour supply is rising. The number of underemployed Australians has grown by 14% over the past year. It seems to us that the labour market rebalance is well under way and hence we would expect to see less interest rate hysteria in the future. These conditions are particularly favourable for Region Group (RGN).

RGN is an internally managed REIT that specialises in owning convenience based retail properties. Its properties are anchored by large grocery stores and are complemented by a small number of specialty retailers. As a result, RGN's rental roll is relatively defensive with a bias to long term leases. Woolworths (WOW) created RGN in 2012 as an owner of 69 newly developed shopping centres. Since listing, RGN has acquired an additional 69 convenience based retail properties for \$2.6 billion or \$5,865 per square metre (sqm) of gross lettable area (GLA). Today RGN is the largest single owner of convenience based shopping centres yet its market share is just 8%. Consolidation opportunities will re-emerge but only when RGN's cost of capital improves; RGN is currently trading at 0.77x book value. At today's share price, RGN's entire portfolio of 800k sqm of GLA is valued at just \$4,620/sqm. Accordingly we believe that RGN should conduct an on market share buyback immediately. In addition, Woolworths and Coles have slowed their store rollout programs and this is despite extremely strong population growth. In our view, the value of convenience based retail properties is being enhanced.

Fund Characteristics

Portfolio Managers	Campbell Neal, David Poppenbeek and Bill Laister
Strategy	Australian and New Zealand Small Cap 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	Bought and Sold on the ASX market (ASX: KSM)
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	>\$1billion

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K2 Australian Small Cap 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
2013/14						2.86	3.19	3.06	4.44	0.36	1.15	-1.26	14.52	1.12	41.95%	0.00%
2014/15	3.64	2.57	-0.68	0.50	-1.04	-0.37	2.60	4.48	1.37	-0.22	2.23	-2.11	13.51	0.44	22.50%	0.00%
2015/16	5.71	-2.77	3.61	1.57	1.31	1.20	-3.95	-5.76	4.80	3.33	1.21	-0.40	9.58	14.40	12.48%	-0.20%
2016/17	4.80	3.05	0.00	-1.48	-3.76	-0.39	1.57	-1.54	3.14	-2.28	0.78	2.80	6.50	7.01	15.90%	-0.54%
2017/18	2.08	3.58	0.05	2.86	-0.23	5.91	-0.28	-3.36	0.04	-2.06	1.65	-1.87	8.29	24.25	21.35%	-2.04%
2018/19	1.82	-0.96	2.06	-6.33	-4.24	-3.25	-0.36	1.48	-1.08	1.04	0.31	-0.08	-9.53	1.92	44.79%	-3.92%
2019/20	5.21	-3.19	3.27	-0.11	2.71	1.01	2.56	-8.00	-28.03	11.37	6.81	-0.18	-12.11	-5.67	26.59%	-1.28%
2020/21	4.81	11.25	1.40	3.21	12.13	1.58	0.80	-1.11	2.75	6.18	1.08	3.57	58.25	33.23	5.99%	-0.23%
2021/22	-1.03	4.78	0.19	0.75	-2.02	2.31	-8.61	-1.08	2.50	-0.86	-9.08	-13.71	-24.36	-19.52	8.02%	-0.01%
2022/23	9.20	1.14	-9.78	2.28	3.94	-4.45	8.43	-2.17	-4.84	2.21	-3.10	-3.33	-2.16	8.45	7.44%	-0.20%
2023/24	5.12	-2.13	-1.49										1.34	-1.94	6.99%	0.00%
												Incept.	55.04	69.37		
												Incept.	4.56%pa	5.50%pa	19.45%	-0.76%

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

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