

K2 Australian Small Cap Fund (Hedge Fund)

30 September 2024



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)	3.53%	2.37	5.00%

Refer below detailed performance data matrix

Top 5 Stock Holdings	Current	Monthly Move
Seven Group Holdings Ltd	8.0%	+0.0%
Summerset Group Holdings Ltd	5.5%	0.0%
GQG Partners Inc-Cdi	5.3%	-0.1%
Lifestyle Communities Ltd	4.3%	+2.3%
National Storage REIT	4.2%	+0.0%

Market Capitalisation Coverage	Current	Monthly Move
Large Caps>=AUD\$7.5b	16.7%	-1.7%
Mid Caps>=AUD\$2b<AUD\$7.5b	37.7%	-0.9%
Small Caps<AUD\$2b	41.6%	+3.7%

Month End Exposures	Current	Monthly Move
Consumer	11.1%	-1.4%
Energy	2.1%	-1.1%
Financials/Real Estate	41.1%	+1.6%
Health Care	5.5%	-1.8%
Industrials	21.4%	+1.4%
Information Technology	3.1%	-0.1%
Materials	12.0%	+2.5%
SHORTS	-1.4%	-1.4%
Number of Positions	37	+6
Gross Equity Exposure	97.7%	+2.5%
Cash Weighting	5.1%	+0.4%
Net Equity Exposure	94.9%	-0.4%

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

Commentary

The K2 Small Cap Fund returned 3.53% for the month.

Post the recent reporting season, we challenged the capital allocation thesis for some of the Funds' key holdings. Seven Group (SVW) has been a core position for many years. One of SVW's main drivers of value has been its corporate offices' ability to astutely allocate capital. Hence, it would make sense for the corporate office to be responsible for the monetisation of Boral's 4,500 hectares of surplus property. The Independent Expert Report within Boral's Target Statement estimated that this surplus property was worth about \$1.5 billion. However, we feel that the potential could be significantly larger. To gauge what could be possible, we considered a similar sized surplus landholding that Brickworks (BKW) held back in 2007. Over the subsequent decade, BKW generated over \$600 million of property-related earnings through irregular land sales and development profits as well as via a JV with Goodman Group (GMG). The JV with GMG was founded with an industrial developable landbank of 300 hectares. After ten years, the asset value of the JV was \$1.5 billion. Interestingly, Boral has already set up a partnership with LOGOS to develop an industrial logistics precinct at Deer Park. The site is 450 hectares and is within close proximity of major transportation links. If we use BKW's original assumptions for the potential value of the GMG JV, then inflation adjust them to today's dollars, the completed Deer Park logistics park could generate well north of \$100 million per annum of rent and be valued at over \$1.5 billion.

Summerset Group (SUM NZ) is an owner and developer of retirement villages. During the decade leading up to COVID, SUM had travelled in the shadows of Ryman Healthcare (RYM NZ). However, SUM had tended to be a more prudent manager of capital. SUM capped borrowings at 90% of the aggregated value of its landbank, development work-in-progress, and unsold new stock (LVR). Hence its completed villages were debt free. RYM on the other hand was developing significantly more commercially intense villages and its LVR tended to be 1.5x higher than SUM. Post COVID, RYM needed to retire expensive debt funding, raise equity and curtail future developments. SUM's prudence gave it the financial flexibility to expand its development pipeline by 10% whilst maintaining a LVR of sub-90%. SUM is now on the cusp of becoming the industry leader. SUM has sector leading operational momentum so a more favourable interest rate setting should see it extend its competitive advantage. We believe that SUM can double its earnings over the coming five years, and today's PE of 12x undervalues the secular growth and strategic positioning.

The best performing holdings for the Fund this month were Acrow Ltd (ACF) and West African Resources (WAF). ACF provides integrated construction systems across formwork, industrial services and commercial scaffolding. Over the past five years ACF has on average delivered revenue growth of more than 20% per year. ACF has stated this rate of growth will continue into 2025. At less than 9x next years' earnings and with strong macro tailwinds, ACF continues to be attractively priced. WAF is a gold producer with operations in Burkina Faso, West Africa. It currently produces 200koz of gold and should deliver A\$200m of earnings this year. By 2026 WAF will have another mine underway and will be producing close to 500koz of gold. Light & Wonder Inc (LNW) and Beach Energy (BPT) were performance detractors.

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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	-4.25	3.80	5.92	1.15	0.18	3.34	-3.49	-0.63	-1.88	5.13	9.35	7.51%	-0.11%	
2024/25	4.56	-2.59	3.53										5.45	6.53	8.63%	-0.54%	
													Incept.	69.60	101.19		
													Incept.	5.00%pa	6.67%pa	18.60%	-0.76%

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

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