

# K2 Australian Small Cap Fund (Hedge Fund)

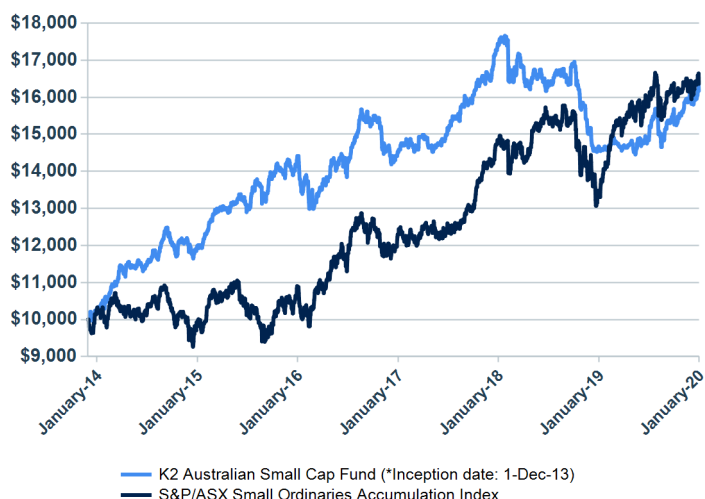
## 31 December 2019



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	3 Months	1 Year	3 Years (%pa)	5 Years (%pa)	Inception (%pa)	Inception Date
Performance (Net of Fees)	0.8%	3.4%	10.2%	3.6%	6.2%	8.2%	1-Dec-2013
Average Net Exposure	77.4%	72.6%	58.7%	68.9%	76.2%	74.3%	

### Growth of \$10,000



### Commentary

The K2 Australian Small Cap Fund returned 0.8% for the month of December.

The best performing holding for the Fund was Medical Developments (MVP) which rose 27% for the month. MVP has been in the portfolio since 2015 and continues to offer significant growth prospects. During the month MVP announced that, after several years, the Russian Ministry of Health had agreed to review the application for Pentrox to be approved for Trauma pain. The Fund's holdings in New Zealand aged care operators Summerset (SUM) and Metlifecare (MET) continued to perform well for the month both rising 16%. MET's Board announced that it unanimously recommended that shareholders vote in favour of a bid from EQT Infrastructure to acquire the company at NZ\$7.00 per share. Shareholders will vote on the transaction in April 2020 with implementation expected in May. We decided to sell our holding at a slight discount to the takeover price.

The Fund's holdings in Smartgroup (SIQ) and Mosaic Brands (MOZ) were the largest detractors to performance declining 22% and 15% respectively. SIQ downgraded its 2020 profit expectation during the month. SIQ stated that higher insurance renewal rates would impact annualised profits by about 8%. This downgrade completed a trifecta of negative events and we subsequently sold our position. This was a very disappointing outcome from such an established business. Mosaic Brands is the new name for the Noni B business. The share price declined following the AGM in November where the company re-iterated guidance for 4% lower same-store-sales growth and announced the acquisition of Ezibuy. Mosaic is a cheap retail franchise at just 7x next year's earnings and a dividend yield of 8%.

The Fund's net exposure for the month averaged 77.3%; long and short exposure averaged 79.1% and 1.7% respectively.

Top 5 Stock Holdings	Current	Monthly Move
Summerset Group Holdings Ltd	5.9%	+1.1%
Netwealth Group Ltd	4.2%	+1.1%
Moelis Australia Ltd	4.0%	+0.6%
Primewest Group Ltd	3.6%	+0.2%
Seven Group Holdings Ltd	3.5%	0.0%

Month End Exposures	Current	Monthly Move
Communication Services	0.5%	+0.0%
Consumer	10.1%	-0.3%
Financials	26.8%	+1.6%
Health Care	16.2%	+1.2%
Industrials	15.4%	-3.3%
Information Technology	1.7%	+0.5%
Materials	1.7%	+0.3%
Other	0.6%	0.0%
Real Estate	3.2%	+0.2%
SHORTS	-1.6%	-0.1%
Number of Positions	38	0
Gross Equity Exposure	77.7%	+0.3%
Cash Weighting	25.4%	-0.1%
Net Equity Exposure	74.6%	+0.1%

### Fund Characteristics

FUM	AUD \$16m
Portfolio Managers	Campbell Neal, David Poppenbeek and Josh Kitchen
Strategy	Australian and New Zealand Small Cap 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 100
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

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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						2.9	3.2	3.1	4.4	0.4	1.2	-1.3	14.5	1.1	41.9%	0.0%	
2014/15	3.6	2.6	-0.7	0.5	-1.0	-0.4	2.6	4.5	1.4	-0.2	2.2	-2.1	13.5	0.4	22.5%	0.0%	
2015/16	5.7	-2.8	3.6	1.6	1.3	1.2	-4.0	-5.8	4.8	3.3	1.2	-0.4	9.6	14.4	12.5%	-0.2%	
2016/17	4.8	3.1	0.0	-1.5	-3.8	-0.4	1.6	-1.5	3.1	-2.3	0.8	2.8	6.5	7.0	15.9%	-0.5%	
2017/18	2.1	3.6	0.1	2.9	-0.2	5.9	-0.3	-3.4	0.0	-2.1	1.7	-1.9	8.3	24.2	21.3%	-2.0%	
2018/19	1.8	-1.0	2.1	-6.3	-4.2	-3.3	-0.4	1.5	-1.1	1.0	0.3	-0.1	-9.5	1.9	44.8%	-3.9%	
2019/20	5.2	-3.2	3.3	-0.1	2.7	0.8							8.8	3.9	30.0%	-1.2%	
													Incept	61.7	63.6		
													Incept	8.2%pa	8.4%pa	27.0%	-1.1%

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

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