

K2 Australian Small Cap Fund (Hedge Fund)

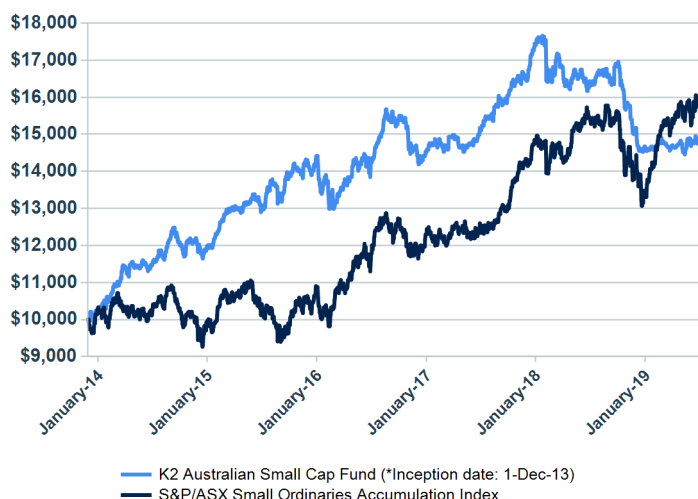
30 June 2019



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)	0.0%	1.3%	-9.5%	1.4%	5.4%	7.4%	1-Dec-2013
Average Net Exposure	62.4%	56.5%	55.2%	72.7%	76.6%	74.7%	

Growth of \$10,000



Commentary

The K2 Australian Small Cap Fund returned -0.04% for the month of June.

The Small Ordinaries Accumulation Index increased +0.9%, taking gains for the Financial Year to +1.9%. The Energy sector (+4.9%) was the best performing for the month, while Industrials (+4.6%) and Healthcare (+4.4%) also performed strongly. Value was lost through Communication (-7.7%), Consumer Discretionary (-2.9%) and Consumer Staples (-2.4%).

The Fund's holdings in Coronado Global Resources, Collins Foods and Austal Group all positively contributed to performance in June. Another strong performer, People Infrastructure (PPE), rallied 20% for the month after completing a capital raising to fund the acquisition of two complimentary businesses. PPE has made several strategic acquisitions over the past two years, which have diversified their revenue streams and delivered strong shareholder returns. We expect this strategy to continue and believe that the company is well positioned to deliver strong shareholder returns into the future. The headwinds from falling house prices, political uncertainty and a tighter regulatory environment have made operating conditions for consumer-facing businesses extremely challenging over the past six months. While there may be cause for optimism in the future, investors remain wary of the short-term earnings for the consumer space. As a result, the Fund's holdings in Premier Investments, OoH Media and Healthia all suffered falls for the month.

We believe that profits will likely disappoint in the short-term, however, considering accommodative fiscal, monetary and regulatory policy tailwinds, we may see some improvement as we cycle into the back end of this year. Given the short-term earnings risk and the greater than average market valuation, the Fund is holding high levels of cash (34%). We will look to deploy capital as earnings risk materialises, valuations become more attractive and the outlook for growth improves.

Top 5 Stock Holdings	Current	Monthly Move
Elanor Investor Group	4.3%	-0.2%
Ooh!Media Ltd	4.1%	+0.1%
Coronado Global Resource-Cdi	4.0%	+0.8%
People Infrastructure Ltd	4.0%	+1.0%
Seven Group Holdings Ltd	3.6%	+0.3%

Month End Exposures	Current	Monthly Move
Communication Services	4.1%	+0.1%
Consumer	12.1%	-1.0%
Financials	17.0%	+1.8%
Health Care	6.9%	-1.9%
Industrials	16.8%	+3.6%
Information Technology	0.2%	-0.7%
Materials	6.4%	-0.7%
Real Estate	2.9%	-1.8%
Utilities	1.6%	+0.6%
SHORTS	-2.1%	+1.2%
Number of Positions	34	-5
Gross Equity Exposure	70.1%	-1.6%
Cash Weighting	34.0%	-0.8%
Net Equity Exposure	66.0%	+0.8%

Fund Characteristics

FUM	AUD \$18m
Portfolio Managers	Campbell Neal, David Poppenbeek, Josh Kitchen and Nicholas Leitt
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	0.0	-9.5	1.9	44.8%	-3.9%	
													Incept	48.7	57.5		
													Incept	7.4%pa	8.5%pa	26.5%	-1.1%

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

DISCLAIMER: Returns are shown after fees (including performance fees) and expenses have been deducted and assume the reinvestment of income distributions. Please note that past performance is not a reliable indicator of future performance. The information contained in this document is produced by K2 Asset Management Ltd ("K2") in good faith, but does not constitute any representation or offer by K2. It is subject to change without notice, and is intended as general information only and is not complete or definitive. K2 does not accept any responsibility, and disclaims any liability whatsoever for loss caused to any party by reliance on the information in this document. A product disclosure statement for general information on any Fund referred to in this document can be obtained at www.k2am.com.au or by contacting K2. You should read the product disclosure statement and consider whether the product is appropriate for you before making a decision to acquire or continue to hold an interest in a Fund. Fees referred to in this document are inclusive of GST and RITC and do not include expense recoveries.