

# K2 Australian Small Cap Fund (Hedge Fund)

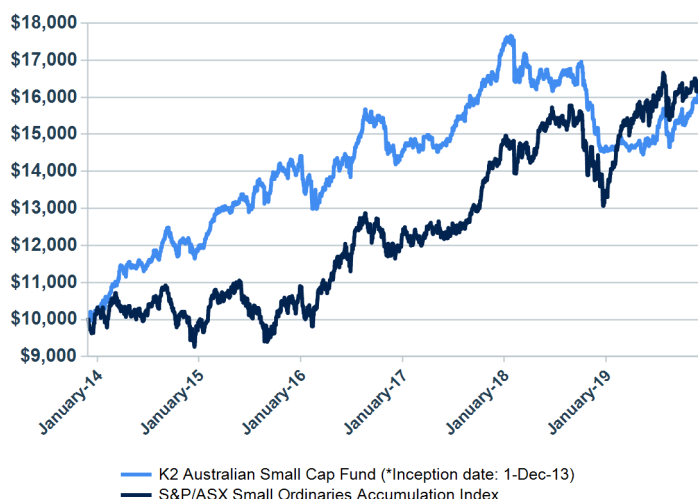
## 30 November 2019



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)	2.7%	6.0%	5.7%	3.2%	5.9%	8.2%	1-Dec-2013
Average Net Exposure	72.3%	69.5%	54.9%	69.2%	76.3%	74.2%	

### Growth of \$10,000



### Commentary

The K2 Australian Small Cap Fund returned 2.7% for November.

The Fund's holdings in New Zealand aged care operators Summerset (SUM) and Metlifecare (MET) performed well for the month rising 17% and 21% respectively. We have been long term believers in the New Zealand aged care model of continuum care. As "baby boomers" progressively age over the next 20 years we believe that quality aged care operators will prosper. Importantly, during the month MET received an expression of interest from a credible third party to acquire the company. The current price of MET is still 19% below book value and the proposed bid price is below the board's valuation. A premium for control should ensure that there is still further upside in holding MET.

The Fund's holdings in Smartgroup (SIQ) and Coronado Global Resources (CRN) were the largest detractors to performance declining 20% and 17% respectively. SIQ declined following an announcement that its long-standing CEO would retire. Unfortunately, the announcement was made just 3 weeks after SIQ's largest shareholder sold its entire holding (25%) at \$11.30. At face value, we can understand the market's frustration. Thankfully we did not participate in the sell-down. Instead, we added to our position at \$9 during the month. We believe that SIQ is well-positioned for a cyclical rebound in new passenger vehicle sales. Lower interest rates, more household wealth and an improved level of business confidence should ensure that SIQ's profits continue to grow over the years ahead. CRN's share price has declined in-line with the global met coal price. We believe CRN is attractively priced at 6x next year's earnings.

The Fund's net exposure for the month averaged 72.3%; long and short exposure averaged 73.9% and 1.6% respectively. We continue to find attractively priced investment opportunities.

Top 5 Stock Holdings	Current	Monthly Move
Summerset Group Holdings Ltd	4.8%	+0.9%
Platinum Asset Management	3.9%	+0.3%
Seven Group Holdings Ltd	3.5%	+0.2%
Metlifecare Ltd	3.5%	+0.8%
Moelis Australia Ltd	3.5%	-0.8%

Month End Exposures	Current	Monthly Move
Communication Services	0.4%	+0.4%
Consumer	10.3%	+0.9%
Financials	25.2%	-2.6%
Health Care	15.0%	+3.8%
Industrials	18.7%	+1.9%
Information Technology	1.3%	+0.1%
Materials	1.4%	-0.2%
Other	0.6%	0.0%
Real Estate	3.0%	+0.4%
SHORTS	-1.5%	0.0%
Number of Positions	38	0
Gross Equity Exposure	77.4%	+4.8%
Cash Weighting	25.6%	-4.7%
Net Equity Exposure	74.4%	+4.7%

### Fund Characteristics

FUM	AUD \$17m
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								7.9	4.2	31.5%	-1.1%	
													Incept	60.4	64.1		
													Incept	8.2%pa	8.6%pa	27.2%	-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](http://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.