

K2 Australian Small Cap Fund (Hedge Fund)

30 April 2024

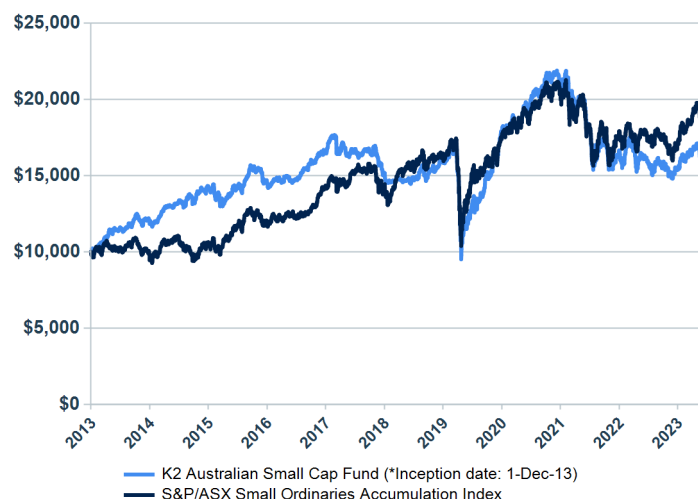


The K2 Australian Small Cap Fund is an Absolute Return equities fund. The fund is index-unaware, aiming to produce positive absolute returns over the long term with a capital preservation mindset. The Fund's mandate allows it to actively manage its net market exposure – utilising both cash and shorts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

	1 Month	Unit Price	Inception (%pa)
Performance (Net of Fees)	-3.49%	2.30	4.92%

Refer below detailed performance data matrix

Growth of \$10,000



Top 5 Stock Holdings	Current	Monthly Move
Seven Group Holdings Ltd	7.7%	-0.5%
NIB Holdings Ltd	5.1%	+0.2%
Region Re Ltd	5.0%	+1.3%
Summerset Group Holdings Ltd	4.9%	+0.4%
Acrow Ltd	4.0%	-0.2%

Market Capitalisation Coverage	Current	Monthly Move
Large Caps >=AUD\$7.5b	8.7%	-0.6%
Mid Caps >=AUD\$2b < AUD\$7.5b	57.2%	-7.7%
Small Caps < AUD\$2b	25.3%	+0.8%

Month End Exposures	Current	Monthly Move
Communication Services	2.1%	-0.1%
Consumer	6.0%	-11.5%
Energy	4.0%	-0.3%
Financials/Real Estate	32.7%	+4.8%
Health Care	6.6%	+0.0%
Industrials	16.9%	-1.1%
Materials	23.2%	+3.2%
Number of Positions	34	-5
Gross Equity Exposure	91.4%	-7.5%
Cash Weighting	8.6%	+7.5%
Net Equity Exposure	91.4%	-7.5%

Commentary

The K2 Small Cap Fund returned -3.49% for the month.

Since the start of this calendar year the price of a barrel of Brent crude oil is up 14% and the CRB Food Index has risen 15%. These price movements partly reflect the hostilities taking place in Ukraine and Gaza Strip. Coincidentally, the global inflation pulse has quickened, and this has contributed to an upward shift in long bond yields. As a result, market participants have now pushed out the prospect for monetary policy easing. To our mind, the inflation war will be won and attention should pivot towards the impact from the rebalancing of the labour market. We have found that a large cross section of our industry contacts are saying that the supply chain has decongested. In addition, we are finding that there are less reports of labour shortages. Conversely, there is little doubt that higher real interest rates are contributing to subdued levels of consumer activity. Hence, we feel that demand for labour is tapering. It is also clear that the supply side of the jobs market is expanding. Migration in most developed regions is reaccelerating and labour participation rates are inflating. These conditions typically lead to higher unemployment rates. If the unemployed ranks start moving sharply higher, we feel that this should lead to pre-emptive interest rate cuts and a soft economic landing.

During the past few months the Fund has established positions in fund managers GQG Partners (GQG), Pinnacle Investment Management (PNI) and Perpetual (PPT). The thought process is that calmer interest rate conditions are typically associated with improved levels of investor confidence, which in turn leads to inflows into managed funds. GQG and PNI are already experiencing better levels of inflows and assets under management are expanding rapidly. GQG and PNI continue to build out their distribution capabilities which, when coupled with consistent relative fund outperformance, expands the global target market. PPT on the other hand, has outlaid \$2.5 billion over the last five years to establish a \$200+ billion boutique asset management business. If PPT offloads its Corporate Trust and Wealth Management businesses for \$1.8+ billion then, as a pure play asset manager, there is considerable upside. PPT's seven asset managers have delivered reasonable relative performance over the past three years so the expanded distribution network should be more productive. Improved operating margins from PPT's asset management business would highlight the significant valuation upside.

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	-4.25	3.80	5.92	1.15	0.18	3.34	-3.49			7.83	10.94	6.56%	-0.14%
												Incept.	64.95	91.61		
												Incept.	4.92%pa	6.44%pa	19.42%	-0.78%

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

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