

# K2 Australian Small Cap Fund (Hedge Fund)

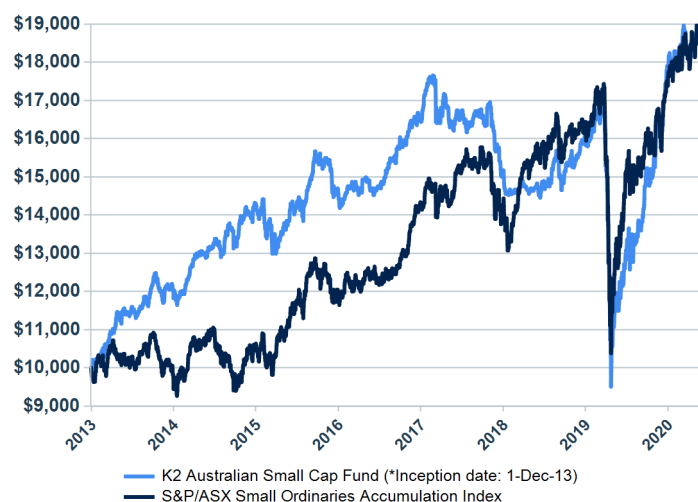
## 30 April 2021



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	6 Months	1 Year	5 Years (%pa)	Inception (%pa)
Performance (Net of Fees)	6.18%	7.88%	23.87%	61.17%	6.92%	9.61%

### Growth of \$10,000



### Commentary

The K2 Small Cap Fund returned a strong +6.2% for the month and has now returned +51.2% this financial year, well ahead of benchmark (BM) by + 22.2%. The fund has also performed strongly over the past year to be +61.1% outperforming the BM by sizable +21.4%. Pleasingly, the fund has delivered a consistent 9.6% p.a. return since inception, above the BM and without excess market volatility.

The Australian economy is expected to expand by more than 4% over the year ahead and the state of the jobs market has been a significant contributor. Australia's unemployment rate has improved by nearly 2% in less than a year and further gains look probable. The removal of the JobKeeper subsidy on March 31 will be a crucial obstacle that the economy will need to contend with however early indicators are promising. ANZ Job Advertisements for April were 4.7% stronger than March and are now almost 8% higher than the pre-COVID peak level.

Additionally, Australia's Treasurer recently stated that more than 93,000 people have come off welfare since the end of March. It could well be that the removal of the JobKeeper subsidy is less debilitating than expected and hence the odds that Australia's unemployment rate heads towards 5% before year end has improved. This is unlikely to alter the Reserve Bank of Australia's commitment to low interest rates. Hence we believe that equity markets will continue to sustain high valuation metrics and earnings momentum will continue to drive share prices into 2022.

The best performing holdings for the Fund this month were People Infrastructure (PPE), Pental Group (PDL), and Maas Group (MGH) which rose 20%, 13% and 22% respectively. PPE is very well positioned to leverage off the improving Australian jobs market. At 16x next years' earnings and with a debt-free balance-sheet, we believe that PPE attractively priced given its significant organic and acquisitive growth opportunities over the years ahead. During the month PDL delivered a strong quarterly update; group inflows were \$900m and the Australian domiciled funds are on track to deliver a better than expected \$16m performance fee. MGH acquired two quarry and plant hire operations during the month. The acquisitions were attractive priced and should be >10% accretive in FY2022.

The Fund's net exposure for the month averaged 96.7%. The median holding for the Fund has attractive characteristics; using consensus forecasts for the year ahead the PE is 15.0x, ROE is 10.1%, and the dividend yield is 3.6%. The market capitalisation of the median holding for the Fund is \$634 million and EPS growth is expected to be +10.0% over the next 12 months.

Top 5 Stock Holdings	Current	Monthly Move
People Infrastructure Ltd	7.4%	+0.8%
Pental Group Ltd	7.3%	+0.3%
Summerset Group Holdings Ltd	7.3%	-0.5%
Moelis Australia Ltd	5.4%	0.0%
Kina Securities Ltd	5.0%	-0.1%

Month End Exposures	Current	Monthly Move
Communication Services	1.8%	+0.8%
Consumer	20.0%	+6.9%
Energy	1.0%	+0.1%
Financials	23.9%	+0.7%
Health Care	13.8%	-0.6%
Industrials	18.3%	-1.0%
Materials	3.2%	-1.0%
Real Estate	14.0%	-2.2%
Number of Positions	47	+2
Gross Equity Exposure	96.0%	+3.7%
Cash Weighting	4.0%	-3.7%
Net Equity Exposure	96.0%	+3.7%

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### Fund Characteristics

FUM	AUD \$12m
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

## 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	15.89%	-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			51.15	28.91	5.87%	-0.26%
Incept.													97.43	91.47		
Incept.													9.61%pa	9.15%pa	23.93%	-1.03%

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

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