

K2 Australian Small Cap Fund (Hedge Fund)

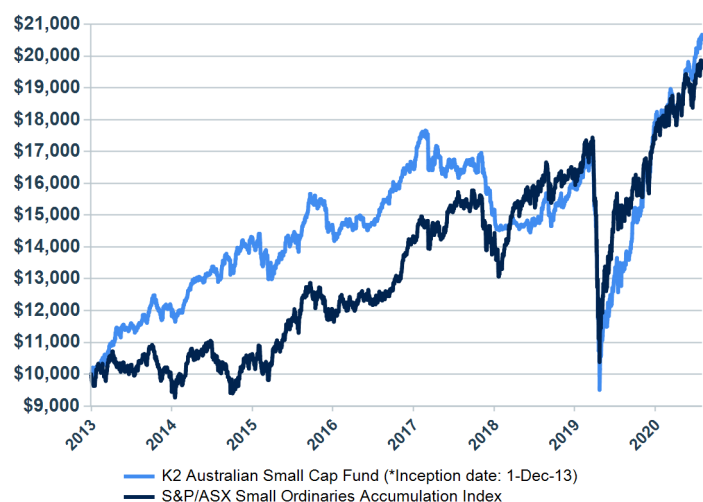
30 June 2021



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)	3.57%	11.16%	13.85%	58.25%	7.73%	10.05%

Growth of \$10,000



Commentary

The K2 Australian Small Cap Fund returned +3.6% for the month and has delivered exceptional returns over the past fiscal year to be up +58.2%. This is well ahead of the benchmark (BM) by a sizable +25%.

As of the end of June, about 30% of Australia's adult population had received a COVID vaccine. This is well below the US and the UK where around 70% of their adult population have been vaccinated. Importantly, 70% of Australians over the age of 70 have received their first vaccine dose and 17% are already fully vaccinated. One of the consequences of Australia's relatively slow vaccine rollout is that projections for GDP growth over the year ahead are more than 1% lower than those for the US and the UK. This is understandable; however, we believe that by year end Australia will be displaying superior growth attributes. The rollout of Australia's COVID vaccine will ramp-up following the recent National Cabinet meeting. On the current run-rate it is likely that by September, 70% of Australia's adult population will have received a vaccine. It is also probable that economic destabilising lockdowns will become less frequent. Hence, we envisage that as we head into 2022, the domestic economy will be performing with more consistency, international students and economic visa holders will gradually re-emerge and GDP growth forecasts will surpass 5%. This backdrop should support earnings momentum for Australian small companies for at least the next 12 months.

Top 5 Stock Holdings	Current	Monthly Move
Summerset Group Holdings Ltd	7.1%	-0.3%
Pendal Group Ltd	7.0%	-0.5%
Maas Group Holdings Ltd	5.2%	+0.4%
MA Financial Group Ltd	5.0%	-0.5%
People Infrastructure Ltd	4.9%	-0.4%

The best performing holdings for the Fund this month were Maas Group (MGH), Summerset Group (SUM) and Kina Securities (KSL) which rose 20%, 7% and 6% respectively. During the month MGH announced that it would be acquiring various businesses for \$123m and would subsequently raise up to \$90m of equity. MGH is in growth mode; earnings for FY'22 are on track to be close to 50% higher than FY'21. During the month property prices in New Zealand were 22% higher than last. This backdrop favours retirement village operator SUM who will announce its 2Q operating metrics next week. Next quarter KSL will find out whether regulators will allow the highly accretive acquisition of Westpac's Pacific operations to proceed. KSL currently trades on a PE of just 7x.

Month End Exposures	Current	Monthly Move
Communication Services	1.8%	0.0%
Consumer	20.9%	-1.6%
Energy	0.9%	0.0%
Financials	26.0%	+1.0%
Health Care	12.3%	-0.5%
Industrials/Real Estate	28.7%	+1.3%
Materials	1.5%	-1.0%
Number of Positions	47	+2
Gross Equity Exposure	92.2%	-0.8%
Cash Weighting	7.8%	+0.8%
Net Equity Exposure	92.2%	-0.8%

The Fund's net exposure for the month averaged 93.3%. The median holding for the Fund has attractive characteristics; using consensus forecasts for the year ahead the PE is 15.5x, ROE is 12.1%, and the dividend yield is 3.2%. The market capitalisation of the median holding for the Fund is \$737 million and EPS growth is expected to be +10.3% over the next 12 months.

Fund Characteristics

FUM	AUD \$13m
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						2.86	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	1.08	3.57	58.25	33.23	5.98%	-0.23%
Incept.													106.70	97.89		
Incept.													10.05%pa	9.42%pa	23.94%	-1.03%

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

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