

# K2 Australian Small Cap Fund (Hedge Fund)

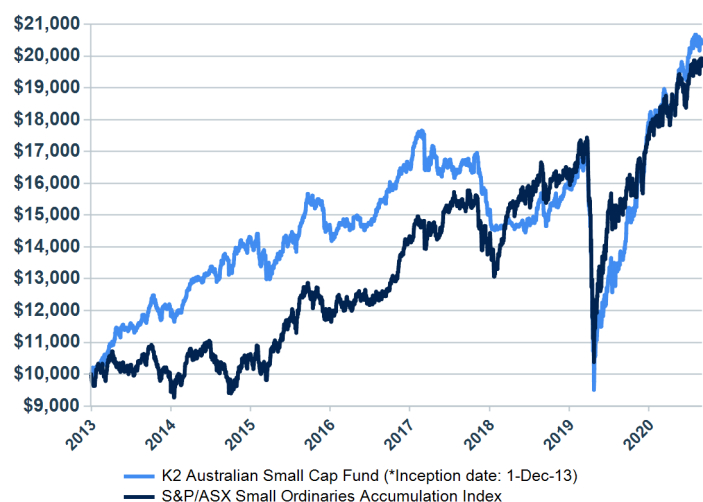
## 31 July 2021



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)	-1.03%	3.61%	11.78%	49.42%	6.50%	9.78%

### Growth of \$10,000



### Commentary

The K2 Small Cap Fund returned a -1.03% for the month and is up +49.4% over the past year to be well ahead of benchmark (BM) by +17%. The fund has consistently performed well since inception delivering 9.8% p.a. return over the long run. The small and mid cap segments continue to offer leverage to the current stimulus led recovery.

Projected earnings for the Small Ordinaries Index have been relatively flat for a decade. A major contributor to the shallow earnings backdrop for smaller companies has resulted from banks tilting capital towards larger companies and households following the Global Financial Crisis. Fortunately, we are beginning to see the green shoots of earnings growth for a number of smaller companies. Although the prevalence of the Delta strain of the COVID-19 virus has spread quickly through certain parts of Australia and a significant section of Sydney has now been put into lock-down, we believe that earning momentum will build into 2022. It is likely that temporary fiscal assistance and monetary latitude will be required during this Delta strain outbreak. However, importantly, during the last week of July more than 600,000 Australian adults received their 2nd COVID-19 vaccine. That weekly vaccination rate should improve over the coming months and hence it is likely that 70% of Australia's adult population will be fully vaccinated before Christmas. This should mean that by 2022 the need for lock downs will diminish. As a result, we are optimistic about the prospects for improved economic activity next year and believe that earnings momentum for smaller companies will improve.

Top 5 Stock Holdings	Current	Monthly Move
Pendal Group Ltd	6.9%	-0.1%
Summerset Group Holdings Ltd	6.8%	-0.2%
Seven Group Holdings Ltd	5.4%	+1.9%
MA Financial Group Ltd	5.0%	+0.0%
Maas Group Holdings Ltd	4.6%	-0.6%

The best performing holdings for the Fund this month were Seven Group (SVW), Lynas Rare Earths (LYC) and Home Consortium (HMC) which rose 14%, 28% and 10% respectively. During the month SVW's bid for Boral closed with an acceptance level of more than 61%. SVW is now well positioned to extract value from Boral's underperforming asset base. LYC has a world leading rare earth ore body. LYC delivered a 4 fold increase in revenue during the June quarter and is well capitalised given its cash position of \$580 million. During the month HMC announced that it would be listing its \$600 million healthcare REIT. HMC is progressively moving towards its aspiration to grow FUM beyond \$5 billion.

Month End Exposures	Current	Monthly Move
Communication Services	1.8%	0.0%
Consumer	22.0%	+1.1%
Energy	0.9%	-0.1%
Financials	26.9%	+0.9%
Health Care	10.1%	-2.2%
Industrials/Real Estate	29.0%	+0.3%
Information Technology	0.6%	+0.6%
Materials	2.1%	+0.7%
SHORTS	-0.7%	-0.7%
Number of Positions	47	0
Gross Equity Exposure	94.1%	+1.9%
Cash Weighting	7.4%	-0.4%
Net Equity Exposure	92.6%	+0.4%

The Fund's net exposure for the month averaged 90.0%. The median holding for the Fund is attractively priced relative to the Small Ordinaries Index; using consensus forecasts for the year ahead the PE is 14% cheaper, the dividend yield is 10% higher and the ROE is 33% stronger. The market capitalisation of the median holding for the Fund is \$695 million.

### Fund Characteristics

FUM	AUD \$14m
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%	
2021/22	-1.03												-1.03	0.69	9.96%	-0.05%	
													Incept.	104.56	99.24		
													Incept.	9.78%pa	9.41%pa	22.39%	-0.92%

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

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