

K2 Australian Small Cap Fund (Hedge Fund)

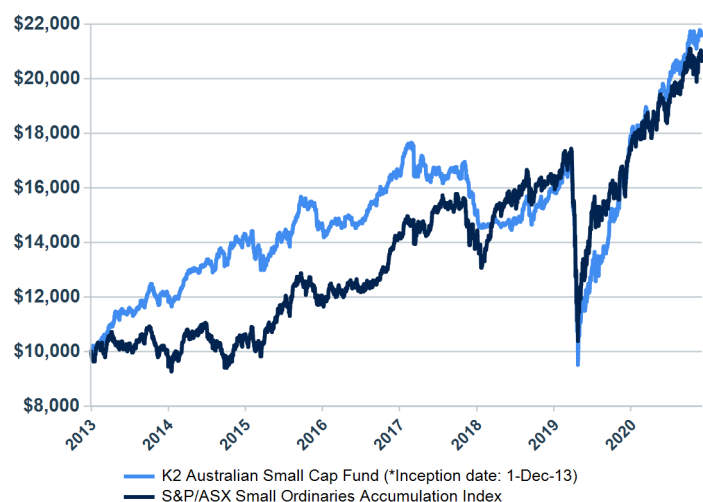
31 October 2021



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)	0.75%	5.77%	9.59%	35.75%	7.38%	10.24%

Growth of \$10,000



Commentary

The K2 Small Cap Fund returned +0.75% for the month and has delivered strong returns over the past year to be up +35.75% outperforming the benchmark (BM) by +4.7%. The fund continues to perform well and exhibits some defensive characteristics when markets are volatile. Pleasingly, the fund has delivered an above BM and consistent 10.24% p.a. return (after all fees) since inception without excess market volatility.

Australia is moving into an environment where the majority of the economic pistons will be firing in unison. At present Australia's Household Savings Rate (HSR) is twice as high as the average rate over the past 30 years. An elevated HSR typically co-exists with low levels of confidence and adverse business trading conditions. It is our expectation that Australia's HSR will decline below 5% throughout 2022 and beyond, driving economic growth expectations to around 3%pa. Smaller capitalised companies tend to be more leveraged to economic cycles. Typically, when trading conditions are robust, confidence is high and growth opportunities are embraced by management teams. We believe that economic leading indicators are an insightful tool for gauging the mood of business leaders, particularly those within smaller companies. It is our expectation that 2022 will be a year of more economic stability and we anticipate that leading indicators in Australia will stay stronger for longer. This backdrop would be conducive to a sustained period of attractive total returns from smaller companies.

Top 5 Stock Holdings	Current	Monthly Move
Summerset Group Holdings Ltd	6.4%	-0.6%
Pendal Group Ltd	6.2%	+0.0%
MA Financial Group Ltd	5.9%	+0.4%
Maas Group Holdings Ltd	5.1%	+0.3%
People Infrastructure Ltd	5.0%	+0.5%

The best performing holdings for the Fund this month were Netwealth (NWL), People Infrastructure (PPE) and MA Financial Group (MAF) which rose 19%, 15% and 12% respectively. NWL delivered a strong 1Q22 update; net inflows were a record \$4b and the group upgraded the FY22 inflow expectations by 25% to \$12.5b. PPE is extremely well positioned to deliver organic and acquisitive growth now that Australia is moving towards the 80% vaccination rate. MAF lifted FY21 earnings guidance to 30-40% growth and is experiencing strong levels of activity across the group.

Month End Exposures	Current	Monthly Move
Communication Services	1.6%	0.0%
Consumer	23.9%	+2.5%
Energy	1.0%	+0.1%
Financials	30.6%	+2.1%
Health Care	10.9%	-1.0%
Industrials/Real Estate	24.4%	+0.4%
Information Technology	0.8%	-0.1%
Materials	3.3%	+0.1%
Number of Positions	41	-1
Gross Equity Exposure	96.5%	+4.1%
Cash Weighting	3.5%	-4.1%
Net Equity Exposure	96.5%	+4.1%

The Fund's net exposure for the month averaged 94.7%. The median holding for the Fund is attractively priced; using consensus forecasts for the year ahead the PE is 14.4x and the ROE is 13.4%. The market capitalisation of the median holding for the Fund is \$933 million. The Fund's current positioning is best described as quality with growth at an attractive price.

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Fund Characteristics

FUM	AUD \$16m
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	1.08	3.57	58.25	33.23	5.98%	-0.23%	
2021/22	-1.03	4.78	0.19	0.75									4.68	4.39	7.30%	-0.02%	
													Incept.	116.37	106.57		
													Incept.	10.24%pa	9.60%pa	22.09%	-0.91%

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

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