

# K2 Australian Small Cap Fund (Hedge Fund)

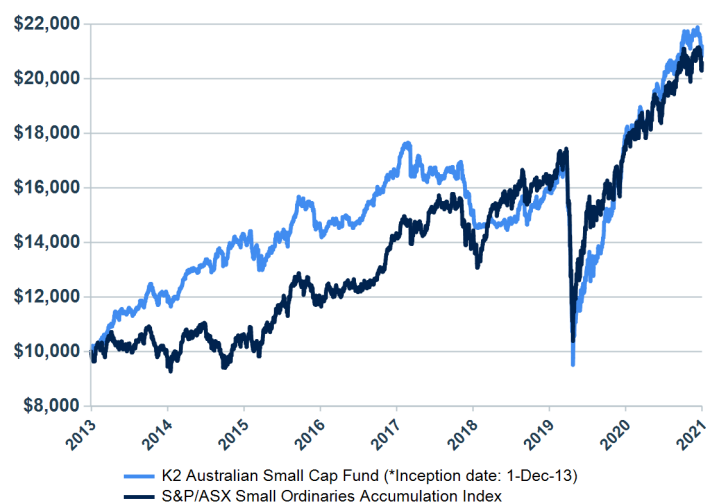
## 30 November 2021



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)	-2.02%	-1.09%	6.23%	18.62%	7.77%	9.85%

### Growth of \$10,000



### Commentary

The K2 Small Cap Fund returned -2.02% for the month and has delivered strong returns over the past year to be up +18.62%, outperforming the benchmark. The fund has delivered +9.85% p.a. return (after all fees) since inception.

Market volatility rose during the month. The World Health Organisation named omicron as the latest COVID-19 variant of concern and this coincided with a more pragmatic inflation narrative from the US Federal Reserve Bank (FED). It is too early to have an expectation for omicron's transmission and severity and it is also unclear how effective current vaccines will be. Australia is suitably prepared given that 88% of the adult population are fully vaccinated and 15% of the elderly have already received the vaccine booster. FED Chairman Powell commented that US inflation is more elevated than expected, employment indicators are stronger than anticipated and, despite this, there has been no increase in the supply of labour. As a result, the US economy is strengthening so the FED will taper asset purchases sooner than expected. We believe that Australia will follow the US lead. Although Australia's Household Savings Rate (HSR) for the September quarter was 19.8% and was the 5th highest quarterly print in 60 years, we believe that the HSR will decline below 5% throughout 2022 and beyond. Assuming that the omicron variant is not too severe, we anticipate that Australia's economy has the potential to sustain around 3%pa growth over the years ahead. The Fund continues to be optimistically positioned.

Top 5 Stock Holdings	Current	Monthly Move
MA Financial Group Ltd	6.5%	+0.6%
Maas Group Holdings Ltd	6.1%	+1.0%
Summerset Group Holdings Ltd	5.9%	-0.5%
People Infrastructure Ltd	4.7%	-0.3%
Seven Group Holdings Ltd	4.7%	+0.2%

The best performing holdings for the Fund this month were MAAS Group (MGH), MA Financial Group (MAF) and Universal Biosensors (UBI) which rose 10%, 9% and 20% respectively. MGH's most recent investor update was upbeat; accretive acquisition opportunities are being negotiated, the property pipeline is extensive, and infrastructure spending programs are a tail wind for the company. MAF is experiencing an improved level of volume turnover and as a result the probability of index inclusion next year is improving. During the month UBI entered into a Master Collaboration Agreement (MCA) with world leading oncology research firm, Mayo Clinic Biopharma Diagnostics.

Month End Exposures	Current	Monthly Move
Communication Services	1.5%	0.0%
Consumer	24.2%	+0.3%
Energy	1.0%	-0.1%
Financials	23.0%	-7.6%
Health Care	11.4%	+0.6%
Industrials/Real Estate	25.9%	+1.6%
Information Technology	0.8%	+0.1%
Materials	3.0%	-0.4%
Number of Positions	41	0
Gross Equity Exposure	90.9%	-5.6%
Cash Weighting	9.1%	+5.6%
Net Equity Exposure	90.9%	-5.6%

The Fund's net exposure for the month averaged 92.4%. The median holding for the Fund is attractively priced; using consensus forecasts for the year ahead the PE is 15.0x, the ROE is 12.2% and the dividend yield is 4.3%. The market capitalisation of the median holding for the Fund is \$651 million. The Fund's positioning can best be described as quality growth at attractive prices.

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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	-2.02								2.57	4.07	7.35%	-0.02%
												Incept.	112.01	105.94		
												Incept.	9.85%pa	9.45%pa	22.10%	-0.91%

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

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