

# K2 Australian Small Cap Fund (Hedge Fund)

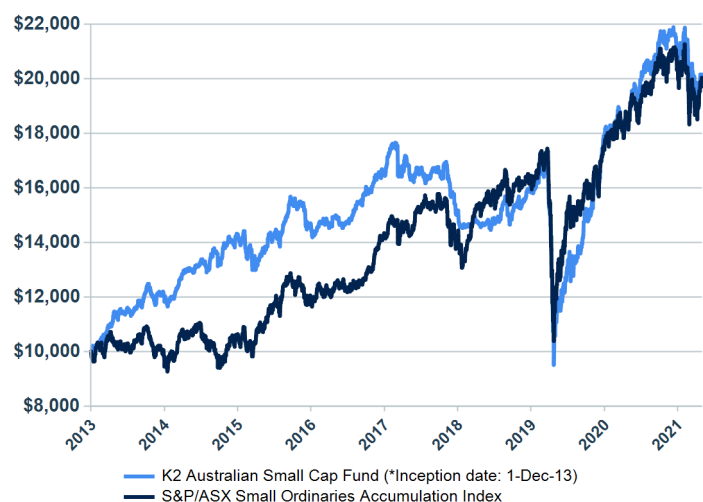
## 31 March 2022



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)	2.50%	-7.33%	-6.40%	8.10%	6.05%	8.74%

### Growth of \$10,000



### Commentary

The K2 Australian Small Cap Fund returned 2.50% for the month.

During the month Russia continued with its invasion of the Ukraine. Many of the world's nations have condemned Russia's hostilities and meaningful sanctions have been imposed. Russia's ability to export oil, gas and fertilizer has been constricted and this has resulted in elevated commodity prices. Despite this, market participants have embraced risk assets and hence the developed equity markets of the US, Europe, Japan and Australia on average gained 4.4% for the month. Most central banks around the world are now in rate tightening mode. Equity markets have a tendency to look through higher debt costs and typically deliver positive returns during rate hike cycles. In addition, bond yield curves are flattening. Normally this indicates that tougher economic conditions are on the horizon. However, equity markets have also tended to outperform despite recessionary fears.

The Reserve Bank of Australia (RBA) has been vocal that the conflict in the Ukraine will lead to economic uncertainty and therefore a patient approach towards monetary policy should be warranted. Fortunately, higher commodity prices are a net benefit to the Australian economy and listed companies are now experiencing better returns on employed capital. Importantly, within this year's Budget, the Australian Government responded to higher global energy prices by halving the fuel excise tax for the next 6 months. This should help taper inflationary expectations and ensure that household consumption is supported. We continue to believe that Australian equities are attractively priced at 16x and offer a globally competitive yield of more than 4%.

The best performing holdings for the Fund this month were Firefinch (FFX), Stanmore Resources (SMR) and Maas Group (MGH) which rose 50%, 21% and 8% respectively. FFX is benefitting from the strong demand from the Electric Vehicle manufacturers which has seen the spot lithium price more than double. SMR recently purchased a highly accretive 80% interest in the coking coal assets from BHP for \$1.2bn. MGH is improving its position as a regional provider of construction materials with the acquisition of four quarries and a cement plant in central QLD during the month.

The Fund's net exposure for the month averaged 90.3%. The median holding for the Fund is attractively priced; using consensus forecasts for the year ahead the PE is 15.2x, the ROE is 13.0% and the dividend yield is 3.4%. The market capitalisation of the median holding for the Fund is \$902 million.

Top 5 Stock Holdings	Current	Monthly Move
Summerset Group Holdings Ltd	7.7%	-0.2%
Maas Group Holdings Ltd	6.3%	+0.4%
Seven Group Holdings Ltd	5.8%	-0.3%
Peoplein Ltd	5.2%	-0.1%
Winton Land Ltd	4.6%	-0.3%

Month End Exposures	Current	Monthly Move
Consumer	21.9%	-4.7%
Energy	3.7%	+2.3%
Financials	15.1%	+2.1%
Health Care	12.8%	-0.6%
Industrials/Real Estate	29.0%	-2.5%
Materials	8.3%	+5.1%
Number of Positions	33	-3
Gross Equity Exposure	90.8%	+0.0%
Cash Weighting	9.2%	0.0%
Net Equity Exposure	90.8%	+0.0%

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### Fund Characteristics

FUM	AUD \$14m
Portfolio Managers	Campbell Neal, David Poppenbeek and Bill Laister
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	15.90%	-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	5.99%	-0.23%	
2021/22	-1.03	4.78	0.19	0.75	-2.02	2.31	-8.61	-1.08	2.50				-2.75	1.09	7.09%	-0.01%	
													Incept.	101.01	100.05		
													Incept.	8.74%pa	8.68%pa	22.07%	-0.91%

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

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