

K2 Australian Small Cap Fund (Hedge Fund)

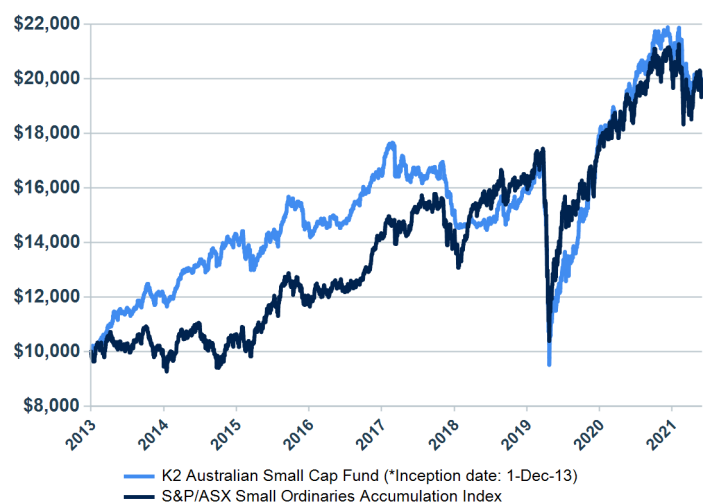
30 April 2022



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)	-0.86%	0.53%	-7.90%	0.94%	6.36%	8.54%

Growth of \$10,000



Top 5 Stock Holdings	Current	Monthly Move
Summerset Group Holdings Ltd	7.6%	0.0%
Maas Group Holdings Ltd	6.7%	+0.4%
Seven Group Holdings Ltd	5.5%	-0.3%
Peoplein Ltd	4.9%	-0.3%
Winton Land Ltd	4.5%	-0.1%

Month End Exposures	Current	Monthly Move
Communication Services	0.5%	+0.5%
Consumer	19.2%	-2.6%
Energy	4.5%	+0.8%
Financials	15.2%	+0.1%
Health Care	12.3%	-0.5%
Industrials/Real Estate	31.6%	+2.5%
Materials	9.8%	+1.5%
Number of Positions	35	+2
Gross Equity Exposure	93.2%	+2.4%
Cash Weighting	6.8%	-2.4%
Net Equity Exposure	93.2%	+2.4%

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Commentary

K2 Small Cap Fund returned -0.86% for the month.

April was an extraordinary month. Russia continued with its invasion of the Ukraine. The CRB Food Index and the oil price both rose 4% and global inflation expectations for the year ahead subsequently moved 1% higher. Despite wide ranging sanctions, the Russian Ruble surged 15% against the US dollar. China continued with its pursuit to contain COVID outbreaks, which, when combined with some relaxed foreign exchange reserve requirements, saw the renminbi decline 4% against the US dollar. The CBOE Volatility Index (VIX) spiked 20 points to hit 33 by month end. The US 10-year bond yield rose 60 basis points to 2.93% taking it back to the same level as late 2018 when the Federal Reserve ceased its rate hike cycle. In response, central bankers around the world now feel compelled to tighten monetary policy, including the Reserve Bank of Australia (RBA). The RBA has tightened sooner than previously expected; business contacts now suggest that they are passing on higher costs of doing business to customers. In addition, there are a growing number of businesses that are alluding to larger wages increases. Ultimately the inflation pulse has quickened and financial conditions have tightened meaningfully.

One of the consequences of tighter financial conditions is that valuation metrics typically decline. We have noticed Australian companies that have historically exhibited superior levels of revenue growth have lost 12 PE points this year. We estimate that the weighted average cost of capital for Australian equities has risen by around 1.5% this year and equates to about 2 PE points. Hence, we can only assume that market participants expect interest rates to rise significantly higher or that future profits will be jeopardised by tighter financial conditions. Our feeling is that supply bottlenecks will subside, surge pricing will taper and cash rates will not sky rocket. We have selectively acquired some superior businesses at prices that offer attractive return prospects, but generally Australian mid-cap growth companies still look relatively expensive at 27x next years expected earnings.

The best performing holdings for the Fund this month were Stanmore Coal (SMR), Corporate Travel (CTD) and Maas Group (MGH) which rose 37%, 11% and 5% respectively. SMR announced that coal production for the March quarter was 40% higher than last year. CTD finalised the acquisition of Helloworld Travel and continues to enjoy favourable trading conditions. MGH announced that it had proposed a number of acquisitions during the month worth in aggregate \$140m if they all proceed.

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	-0.86			-3.59	-0.42	7.23%	-0.01%	
													Incept.	99.28	97.05		
													Incept.	8.54%pa	8.39%pa	22.09%	-0.91%

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

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