

K2 Australian Small Cap Fund (Hedge Fund)

30 June 2022

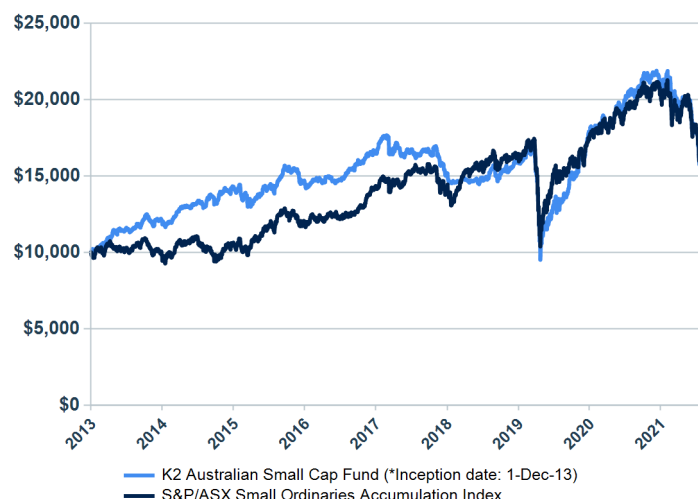


The K2 Australian Small Cap Fund is an Absolute Return equities fund. The fund is index-unaware, aiming to produce positive absolute returns over the long term with a capital preservation mindset. The Fund's mandate allows it to actively manage its net market exposure – utilising both cash and shorts to help protect clients' capital.

	1 Month	Unit Price	Inception (%pa)
Performance (Net of Fees)	-13.71%	2.19	5.35%

Refer below detailed performance data matrix

Growth of \$10,000



Top 5 Stock Holdings	Current	Monthly Move
Summerset Group Holdings Ltd	8.5%	+0.9%
Maas Group Holdings Ltd	6.5%	-0.2%
Seven Group Holdings Ltd	6.2%	+0.5%
Peoplein Ltd	5.1%	+0.5%
Judo Capital Holdings Ltd	4.8%	-0.2%

Market Capitalisation Coverage	Current	Monthly Move
Large Caps >=AUD\$7.5b	0.0%	0.0%
Mid Caps >=AUD\$2b < AUD\$7.5b	31.2%	-0.3%
Small Caps < AUD\$2b	58.3%	+5.0%

Month End Exposures	Current	Monthly Move
Consumer	12.4%	+0.1%
Energy	3.4%	-2.0%
Financials	18.8%	+0.9%
Health Care	12.9%	+1.2%
Industrials/Real Estate	39.6%	+7.4%
Materials	2.4%	-2.0%
Number of Positions	33	+4
Gross Equity Exposure	89.6%	+4.7%
Cash Weighting	10.4%	-4.7%
Net Equity Exposure	89.6%	+4.7%

Commentary

The K2 Small Cap Fund returned -13.71% for the month.

The Reserve Bank of Australia (RBA) is well and truly in tightening mode thanks to some exogenous factors; the Fair Work Commission concluded that the National Minimum Wage would rise by 5.2% in FY2023 and this coincided with volatile energy prices resulting from strains on the structure of the nation's distribution network. It would also appear that the RBA has picked up signals that some business leaders have stepped away from the prior disciplined cost culture. As a result, the RBA probably feels that it needs to help anchor inflationary pressures before they become too embedded into everyday life. Fortunately, despite elevated headline inflation, the number of Australian industrial disputes at present is 90% lower than in 1985 when the annual CPI reading was at a similar level. Higher wages should reflect productivity gains as opposed to preserving the level of real purchasing power.

Global food and oil prices are on average 30% higher than last year and this has contributed to global inflation expectations rising 1.5%. Historically, a prolonged elevation in food and oil prices has led to a supply response that typically comes online well after prices have peaked. We have also noted that when food and oil prices move 30% quickly, global measures of risk move sharply higher and mis-priced assets are subsequently exposed. From an equity market perspective, the risks have clearly shifted away from valuations and towards earnings. Australia's mining industry is contending with higher operating costs; a number of gold companies have already guided to lower profits for the June half. Hence, during June, sell-side analysts downgraded EPS forecasts for 33% of the companies in the Small Ordinaries Index.

The best performing holdings for the Fund this month were Acrow Formwork and Construction Services (ACF) and Lovisa Holdings (LOV) which rose for the month. The largest detractors for the Fund this month were Judo Capital (JDO), Maas Group (MGH) and MA Financial Group (MAF) which all declined by more than 10%. Market participants are pricing a sharp recession into their share prices; a view that we do not agree with.

The median holding for the Fund has a market capitalisation of \$1.4 billion and, using next years' estimates, trades on a PE of 12.3x, generates an ROE of 13.7% and offers a dividend yield of 4.7%.

Fund Characteristics

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

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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	15.90%	-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	-9.08	-13.71	-24.36	-19.52	8.02%	-0.01%
												Incept.	56.36	59.26		
												Incept.	5.35%pa	5.57%pa	22.17%	-0.91%

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

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