

# K2 Australian Small Cap Fund (Hedge Fund)

## 31 August 2022

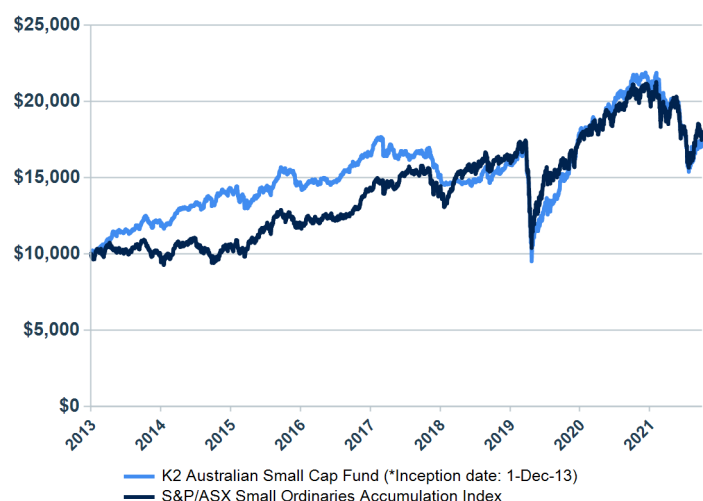


The K2 Australian Small Cap Fund is an Absolute Return equities fund. The fund is index-unaware, aiming to produce positive absolute returns over the long term with a capital preservation mindset. The Fund's mandate allows it to actively manage its net market exposure – utilising both cash and shorts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

	1 Month	Unit Price	Inception (%pa)
Performance (Net of Fees)	1.14%	2.42	6.44%

Refer below detailed performance data matrix

### Growth of \$10,000



Top 5 Stock Holdings	Current	Monthly Move
Summerset Group Holdings Ltd	7.2%	+0.3%
Seven Group Holdings Ltd	6.8%	+0.5%
Peoplein Ltd	6.4%	+0.6%
Kina Securities Ltd	5.2%	+0.3%
Maas Group Holdings Ltd	5.0%	0.0%

Market Capitalisation Coverage	Current	Monthly Move
Large Caps >=AUD\$7.5b	0.0%	0.0%
Mid Caps >=AUD\$2b < AUD\$7.5b	33.4%	+1.9%
Small Caps < AUD\$2b	56.4%	+6.5%

Month End Exposures	Current	Monthly Move
Communication Services	2.6%	+0.2%
Consumer	12.4%	+3.8%
Energy	7.1%	+3.8%
Financials	19.8%	-0.7%
Health Care	12.0%	+0.4%
Industrials/Real Estate	31.0%	-0.3%
Information Technology	3.1%	-0.2%
Materials	2.2%	+1.9%
SHORTS	-0.3%	0.0%
Number of Positions	30	+1
Gross Equity Exposure	90.5%	+8.8%
Cash Weighting	10.2%	-8.8%
Net Equity Exposure	89.8%	+8.8%

### Commentary

The K2 Australian Small Cap Fund returned 1.14% for the month.

The Reserve Bank of Australia (RBA) has lifted interest rates for the 5th time this year. The RBA's Cash Rate now stands at 2.35% and this has driven a 50% lift in the standard variable home loan rate (SVHLR) over the past 12 months. That said, it is worth noting that the SVHLR is still 35% lower than what was experienced during the 30 years prior to the GFC. The RBA did state that it "...expects to increase interest rates further over the months ahead, but it is not on a pre-set path". We believe that this pragmatic approach to monetary policy will hold the Australian economy in good stead. Inflation hysteria is fading; supply chain congestion is gradually alleviating and surge prices are starting to run off. However, the demand side of the labour market is still robust. We believe that tighter financial conditions will address this in time. Hence, we believe that a soft landing for the Australian economy is probable.

Australian small companies continues to offer attractive opportunities. Small companies have had to contend with more operational impediments over the past decade than their larger peers. However, we feel that the playing field is finally levelling out and small companies are well positioned to cede market share away from the larger incumbents. Our stock selection framework has identified a number of companies that have impressive management capabilities, ample balance-sheet capacity and the disciplined capital allocation processes needed to compete over the long term. The median company in the Fund is expected to generate an ROE of 16% next year yet the PE ratio is just 12x.

The best performing holdings for the Fund this month were Lovisa Holdings (LOV) and PeopleIN (PPE) which rose 30% and 9% respectively. LOV is a fast moving fashion jewellery retailer. In FY'22 LOV delivered 59% sales growth and lifted profits by 116%. The store rollout program continues at pace and LOV is in a position of net cash. PPE's FY'22 results were ahead of guidance; sales grew by 53% and profits were up by 24%. PPE has guided to EBITDA expanding by more than 30% next year. The largest detractor to performance for the month was Judo Capital (JDO). Despite a 73% lift in the SME loan book, a maiden profit and just one customer more than 90 days in arrears in FY'22, market participants are sceptical about JDO's prospects. We envisage JDO will continue to deliver market leading loan growth, higher net interest margins, better efficiency whilst containing bad debts.

Fund Characteristics	
Portfolio Managers	Campbell Neal, David Poppenbeek and Bill Laister
Strategy	Australian and New Zealand Small Cap Equities
Objectives	To deliver consistent returns over the investment cycle with a focus on capital protection during periods of market declines
Return Target	S&P/ASX Small Ordinaries Accumulation Index + 3%pa
Number of Stocks	40 to 60
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
Investment Horizon	5 Years
Style Bias	Growth At a Reasonable Price
Market Capitalisation Bias	>\$1billion

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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%
2022/23	9.20	1.14											10.45	12.08	16.68%	-0.18%
												Incept.	72.69	78.49		
												Incept.	6.44%pa	6.85%pa	21.63%	-0.84%

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

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