

K2 Australian Small Cap Fund (Hedge Fund)

31 October 2022

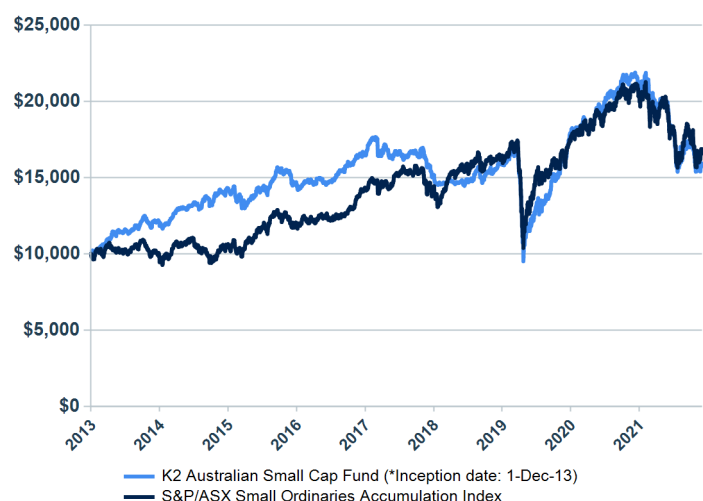


The K2 Australian Small Cap Fund is an Absolute Return equities fund. The fund is index-unaware, aiming to produce positive absolute returns over the long term with a capital preservation mindset. The Fund's mandate allows it to actively manage its net market exposure – utilising both cash and shorts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

	1 Month	Unit Price	Inception (%pa)
Performance (Net of Fees)	2.28%	2.24	5.36%

Refer below detailed performance data matrix

Growth of \$10,000



Top 5 Stock Holdings	Current	Monthly Move
Seven Group Holdings Ltd	7.3%	+0.4%
Summerset Group Holdings Ltd	7.0%	-0.7%
PeopleIn Ltd	6.2%	+0.3%
Kina Securities Ltd	5.4%	+0.1%
Judo Capital Holdings Ltd	5.3%	-0.3%

Market Capitalisation Coverage	Current	Monthly Move
Large Caps >=AUD\$7.5b	0.0%	0.0%
Mid Caps >=AUD\$2b < AUD\$7.5b	37.7%	+8.2%
Small Caps < AUD\$2b	55.9%	-2.5%

Month End Exposures	Current	Monthly Move
Communication Services	3.0%	+0.3%
Consumer	10.0%	+0.7%
Energy	8.6%	+1.5%
Financials	19.8%	+0.0%
Health Care	11.5%	-0.9%
Industrials/Real Estate	32.0%	+3.1%
Materials	9.3%	+3.3%
SHORTS	-1.0%	-0.7%
Number of Positions	32	+3
Gross Equity Exposure	95.3%	+6.3%
Cash Weighting	6.7%	-5.0%
Net Equity Exposure	93.3%	+5.0%

Commentary

The K2 Australian Small Cap Fund returned 2.28% for the month.

The Reserve Bank of Australia (RBA) continues to demonstrate a pragmatic approach to monetary policy. It has motioned towards more gradual rate rises of 25 basis points whereas the US Federal Reserve (FED) and the Reserve Bank of New Zealand (RBNZ) have been opting for aggressive 75 basis point hikes. As a result, we believe that the RBA is moving towards a period of interest rate inaction. These phases are embraced by market participants and strong equity returns typically follow. On the other hand, we envisage that if the FED and the RBNZ continue with a more heavy handed approach, economic consequences will be more amplified. Accordingly, we believe that Australia will be able to sustain a stronger and more prolonged phase of economic activity than peer nations.

Seven Group Holdings (SVW) is the largest holding for the Fund and heavily leveraged to construction and mining related activity in Australia. An extensive pipeline of infrastructure projects is underpinning construction activity. In addition, despite slower global activity, demand for Australian resources remains solid. As a result, SVW is well positioned to continue to deliver profit growth and is attractively priced at a PE of 10x next years' earnings. PeopleIn (PPE) is another large holding for the Fund. PPE provides labour solutions to some of the strongest growing segments of the Australian jobs market. PPE has a strong balance-sheet to support future growth opportunities and is trading on just 7x FY'23 earnings. Although the RBNZ is aggressively hiking rates, we believe that Summerset Group (SUM) has a business model that will continue to prosper. SUM's retirement villages provide continuum of care and accordingly, demand is more needs based.

The best performing holdings for the Fund this month were Stanmore Resources (SMR), Seven Group Holdings (SVW) and PWR Holdings (PWH) which rose 33%, 8% and 19% respectively. Maas Group (MGH) and Summerset Group (SUM) were the largest detractors. During the month the Fund added Johns Lyng Group (JLG) and increased the position in Abacus Property Group (ABP). Megaport (MP1) was sold. The median holding for the Fund has a market capitalisation of \$1.4 billion and, using next years' estimates, trades on a PE of 13.5x and generates an ROE of 16%.

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	25 to 50
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	-9.78	2.28									1.92	5.96	12.68%	-0.35%
													Incept.	59.36	68.75	
													Incept.	5.36%pa	6.04%pa	21.23%
																-0.86%

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

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