

K2 Australian Small Cap Fund (Hedge Fund)

30 June 2023

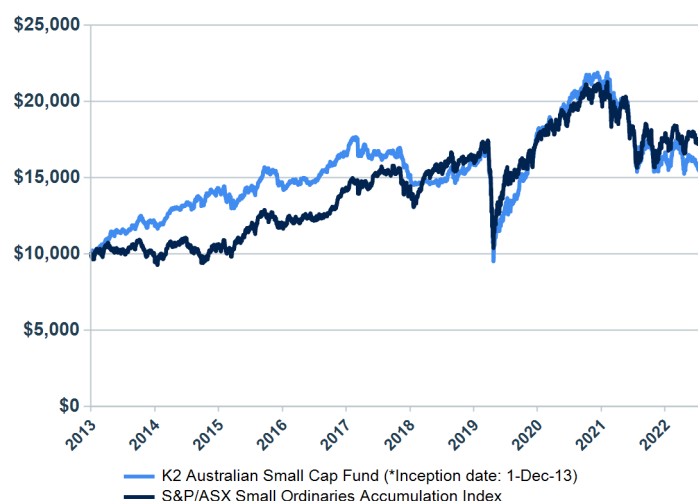


The K2 Australian Small Cap Fund is an Absolute Return equities fund. The fund is index-unaware, aiming to produce positive absolute returns over the long term with a capital preservation mindset. The Fund's mandate allows it to actively manage its net market exposure – utilising both cash and shorts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

	1 Month	Unit Price	Inception (%pa)
Performance (Net of Fees)	-3.87%	2.13	4.47%

Refer below detailed performance data matrix

Growth of \$10,000



Top 5 Stock Holdings	Current	Monthly Move
Seven Group Holdings Ltd	7.6%	+0.7%
Summerset Group Holdings Ltd	5.4%	-1.1%
Peoplein Ltd	5.3%	-0.9%
Corporate Travel Management	5.1%	-0.6%
NIB Holdings Ltd	4.4%	+0.2%

Market Capitalisation Coverage	Current	Monthly Move
Large Caps >=AUD\$7.5b	7.6%	+0.7%
Mid Caps >=AUD\$2b < AUD\$7.5b	52.2%	+16.7%
Small Caps < AUD\$2b	36.6%	-12.6%

Month End Exposures	Current	Monthly Move
Consumer	10.3%	-5.5%
Energy	6.8%	+0.2%
Financials/Real Estate	22.8%	+3.3%
Health Care	8.5%	-1.4%
Industrials	23.1%	+0.8%
Materials	25.3%	+7.5%
Number of Positions	34	+3
Gross Equity Exposure	96.9%	+4.9%
Cash Weighting	3.1%	-4.9%
Net Equity Exposure	96.9%	+4.9%

Commentary

The K2 Small Cap Fund returned -3.87% for the month.

Over the past decade, Australian smaller companies have had to contend with a number of significant exogenous events. Banking capital had consistently been redirected towards larger enterprises. Then the onset of the COVID pandemic amplified the damaging effects of capital rationing for small companies; they urgently needed to embed technology that would allow them to pivot their businesses towards online capabilities but struggled to demonstrate the cashflow to support the investment. To complete the trifecta of woes, Russia's invasion of the Ukraine triggered the most aggressive rate hiking cycle in modern history. Despite this, we are finding that there are a number of smaller companies that are now "rising like a phoenix from the ashes".

Corporate Travel (CTD) courageously acquired two businesses during the COVID pandemic and subsequently won two major contracts. As a result, over the coming year, CTD should be able to register a Total Transaction Value (TTV) that is double its pre-COVID level. It is also possible that CTD has extracted a meaningful technology dividend. CTD employs over 3,000 staff and has always stated that its personalised service excellence, when coupled with market-leading technology, delivers a valuable client proposition. It will be fascinating to see how CTD utilises the last version of Generative Artificial Intelligence and whether it can improve the productiveness of the current technology stack.

MAAS Group (MGH) is another company that has used the difficult economic backdrop to expand its footprint. Over the past six years, MGH has invested about \$600 million on opportunities that will underpin earnings over the next year or two. Furthermore, MGH's operations are becoming increasingly integrated and this should facilitate an improved level of capital allocation productivity. By way of example, MGH's creation of regional residential lots for Land Lease Communities should showcase the strategic positioning of its land bank, the strength of its civil capabilities, and the skills of its commercial developers. MGH has the potential to deliver 1,000 Land Lease lots over the coming years which should in turn create \$200 million of value.

The Fund has rarely acquired so many optimistically positioned businesses at such compelling valuation multiples and is now positioned for some broadening in economic activity.

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	3.94	-4.45	8.43	-2.17	-4.84	2.21	-3.10	-3.87	-2.71	8.45	7.44%	-0.20%
												Incept.	52.11	72.71		
												Incept.	4.47%pa	5.87%pa	20.70%	-0.84%

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

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