

K2 Australian Small Cap Fund (Hedge Fund)

31 December 2023

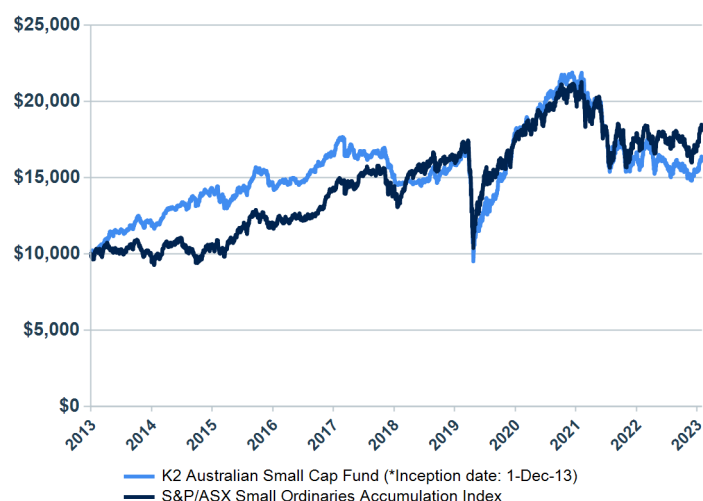


The K2 Australian Small Cap Fund is an Absolute Return equities fund. The fund is index-unaware, aiming to produce positive absolute returns over the long term with a capital preservation mindset. The Fund's mandate allows it to actively manage its net market exposure – utilising both cash and shorts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

	1 Month	Unit Price	Inception (%pa)
Performance (Net of Fees)	5.92%	2.28	4.98%

Refer below detailed performance data matrix

Growth of \$10,000



Top 5 Stock Holdings	Current	Monthly Move
Seven Group Holdings Ltd	9.1%	+0.4%
Summerset Group Holdings Ltd	4.9%	+0.3%
Corporate Travel Management	4.7%	-0.1%
Region Re Ltd	4.3%	0.0%
Netwealth Group Ltd	4.2%	-0.3%

Market Capitalisation Coverage	Current	Monthly Move
Large Caps >=AUD\$7.5b	10.7%	+2.1%
Mid Caps >=AUD\$2b < AUD\$7.5b	60.1%	+8.2%
Small Caps < AUD\$2b	24.0%	-3.8%

Month End Exposures	Current	Monthly Move
Consumer	12.4%	+7.6%
Energy	5.4%	-0.3%
Financials/Real Estate	25.2%	-4.5%
Health Care	4.9%	-0.4%
Industrials	22.7%	-0.1%
Information Technology	2.7%	+0.9%
Materials	21.9%	+3.2%
Number of Positions	36	+2
Gross Equity Exposure	95.2%	+6.0%
Cash Weighting	4.8%	-6.9%
Net Equity Exposure	95.2%	+6.9%

Commentary

The K2 Small Cap Fund returned 5.92% for the month.

The investing climate in Australia is improving. The headline inflation rate has almost halved since the end of 2022 and further declines should be expected over the coming months. Food prices have been declining, petrol prices have fallen and wholesale electricity prices have collapsed. As a result, the Reserve Bank of Australia (RBA) should be able to move to the sidelines. An improved interest rate outlook has supported the Australian housing market with residential property prices having risen now for ten consecutive months. The Australian share market also moved 12% higher over the past two months. Notwithstanding these asset price moves, consumer and business confidence in Australia has remained at uncharacteristically subdued levels. We would anticipate that the animal spirits of the Australian consumer and business leaders will be rekindled in 2024 and this should be beneficial for businesses such as Netwealth (NWL).

NWL provides an investment platform for wealth professionals and individual investors. Australia's investment platform market is about \$1 trillion in size and is dominated by four large incumbent players who control 60% of the market. Over the past year, two of these incumbents have been losing more than \$5 billion of share each quarter. NWL has consistently led the market in net funds flow and is now the sixth largest participant with a share of 7.1%. The platform market has stalled over the past two years however we believe that conditions will improve over the coming quarters and anticipate that NWL will continue to win a disproportionate share of market funds flow. We can see a pathway to NWL attaining more than 10% of the platform market.

NWL is not the only platform provider that is winning market share. Hub24 (HUB) has also grown rapidly over recent times and now holds a 6.3% share of the market. We have tended to prefer the NWL business model as it is tilted towards organic growth avenues which has helped preserve the share count. HUB's executive team have remuneration incentives that include a platform growth target of more than 25% pa. Unsurprisingly, HUB has made numerous acquisitions over the past three years which has helped satisfy the growth target but has led to a 30% increase in its share count. NWL ultimately delivers a superior statutory profit margin, return on shareholder equity and dividend productivity to that of HUB.

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	+10% pa over the long term
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	-3.33	-2.16	8.45	7.44%	-0.20%
2023/24	5.12	-2.13	-1.49	-4.25	3.80	5.92							6.69	6.42	7.74%	-0.22%
												Incept.	63.22	83.79		
												Incept.	4.98%pa	6.22%pa	19.52%	-0.79%

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

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