

K2 Australian Small Cap Fund (Hedge Fund)

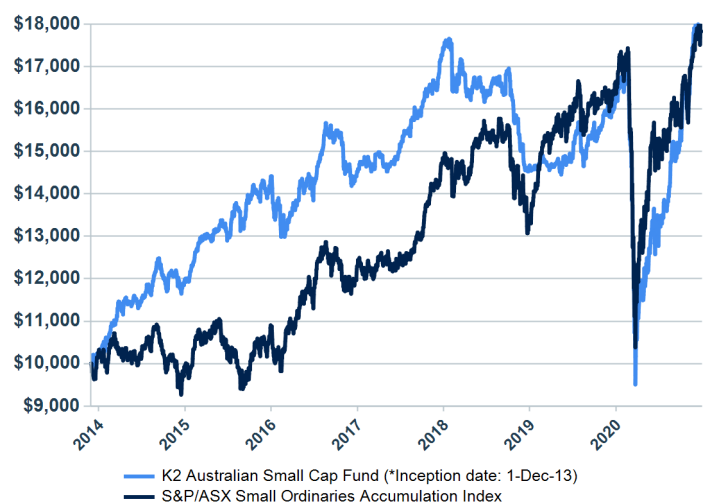
31 December 2020



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	Inception (%pa)	Inception Date
Performance (Net of Fees)	1.6%	8.8%	1-Dec-2013
Average Net Exposure	96.4%	75.8%	

Growth of \$10,000



Top 5 Stock Holdings	Current	Monthly Move
Summerset Group Holdings Ltd	8.2%	+1.0%
Pendal Group Ltd	7.0%	-0.7%
People Infrastructure Ltd	6.5%	-0.2%
Moelis Australia Ltd	5.2%	+0.1%
Corporate Travel Management	5.1%	-0.8%

Month End Exposures	Current	Monthly Move
Consumer	10.0%	+1.0%
Financials	25.4%	-1.6%
Health Care	14.6%	+1.9%
Industrials	24.7%	+2.4%
Information Technology	0.6%	+0.6%
Materials	4.9%	+1.0%
Real Estate	17.1%	-0.1%
Number of Positions	43	+3
Gross Equity Exposure	97.3%	+1.3%
Cash Weighting	2.7%	-1.3%
Net Equity Exposure	97.3%	+1.3%

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Commentary

The strong returns continued in December. The K2 Small Cap Fund returned +1.6% for the month. The fund has now returned +39.0% this financial year, well ahead of benchmark (BM) by +18.7%. Since the March lows the fund is up a very strong +91.0% outperforming the benchmark by +18.9%. The combination of good stock selection and investing cash early in the recovery have contributed to the strong performance vs benchmark since the severe March correction.

Since the end of March 2020, when markets were in their most fearful state, the Fund has delivered a +65% return. The Fund's net exposure has averaged 89.4% over the past 3 quarters and is still optimistically positioned. Despite relatively high valuation multiples (the PE of the Small Ordinaries Index is now over 20x next year's expected earnings) we believe that conditions continue to favour equities. Central bankers around the world are determined to keep interest rates low for the foreseeable future. Inflation pulses are rising however this should not disturb the Quantitative Easing commitment that Central Banks have made. The 3 largest Central Banks (US Fed, ECB and BOJ) have collectively increased their balance-sheets by more than US\$7 trillion this year and an unwinding of these positions is unlikely to be considered until the world has effectively eradicated the COVID-19 virus. In a zero-bound investing world, Australian smaller capitalised equities continue to offer a compelling yield with a dividend stream that will escalate over the years ahead.

The best performing holdings for the Fund this month were Summerset Group Holdings (SUM NZ), Maas Group Holdings (MGH) and Maca Ltd (MLD) which rose 18%, 39% and 23% respectively. SUM provided stronger than expected full year profit guidance during the month. MGH, which listed on the ASX this month, provides materials, equipment, and services to the Australian construction industry. MGH also operates a meaningful property development segment. MLD acquired a mining services business from Downer EDI for \$175 million (2.5x EBITDA). The Fund participated in MLD's subsequent \$75 million equity raising. Detractors to performance for the month included Corporate Travel Management (CTD), Service Stream Ltd (SSM) and Pendal Group (PDL).

The Fund's net exposure for the month averaged 96.4%. The median holding for the Fund has attractive characteristics; using consensus forecasts for the year ahead the PE is 16.6x, ROE is 12.1%, and the dividend yield is 3.6%. The market capitalisation of the median holding for the Fund is \$726 million and EPS growth is expected to be +15.2% over the next 12 months.

Fund Characteristics

FUM	AUD \$10m
Portfolio Managers	Campbell Neal, David Popenbeek and Josh Kitchen
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

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						2.9	3.2	3.1	4.4	0.4	1.2	-1.3	14.5	1.1	41.9%	0.0%
2014/15	3.6	2.6	-0.7	0.5	-1.0	-0.4	2.6	4.5	1.4	-0.2	2.2	-2.1	13.5	0.4	22.5%	0.0%
2015/16	5.7	-2.8	3.6	1.6	1.3	1.2	-4.0	-5.8	4.8	3.3	1.2	-0.4	9.6	14.4	12.5%	-0.2%
2016/17	4.8	3.1	0.0	-1.5	-3.8	-0.4	1.6	-1.5	3.1	-2.3	0.8	2.8	6.5	7.0	15.9%	-0.5%
2017/18	2.1	3.6	0.1	2.9	-0.2	5.9	-0.3	-3.4	0.0	-2.1	1.7	-1.9	8.3	24.2	21.3%	-2.0%
2018/19	1.8	-1.0	2.1	-6.3	-4.2	-3.3	-0.4	1.5	-1.1	1.0	0.3	-0.1	-9.5	1.9	44.8%	-3.9%
2019/20	5.2	-3.2	3.3	-0.1	2.7	1.0	2.6	-8.0	-28.0	11.4	6.8	-0.2	-12.1	-5.7	26.6%	-1.3%
2020/21	4.8	11.3	1.4	3.2	12.1	1.6							39.0	20.3	6.7%	-0.4%
Incept													81.6	78.7		
Incept													8.8%pa	8.5%pa	24.0%	-1.0%

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

DISCLAIMER: Returns are shown after fees (including performance fees) and expenses have been deducted and assume the reinvestment of income distributions. Please note that past performance is not a reliable indicator of future performance. The information contained in this document is produced by K2 Asset Management Ltd ("K2") in good faith, but does not constitute any representation or offer by K2. It is subject to change without notice, and is intended as general information only and is not complete or definitive. K2 does not accept any responsibility, and disclaims any liability whatsoever for loss caused to any party by reliance on the information in this document. A product disclosure statement for general information on any Fund referred to in this document can be obtained at www.k2am.com.au or by contacting K2. You should read the product disclosure statement and consider whether the product is appropriate for you before making a decision to acquire or continue to hold an interest in a Fund. Fees referred to in this document are inclusive of GST and RITC and do not include expense recoveries.