

K2 Australian Small Cap Fund (Hedge Fund)

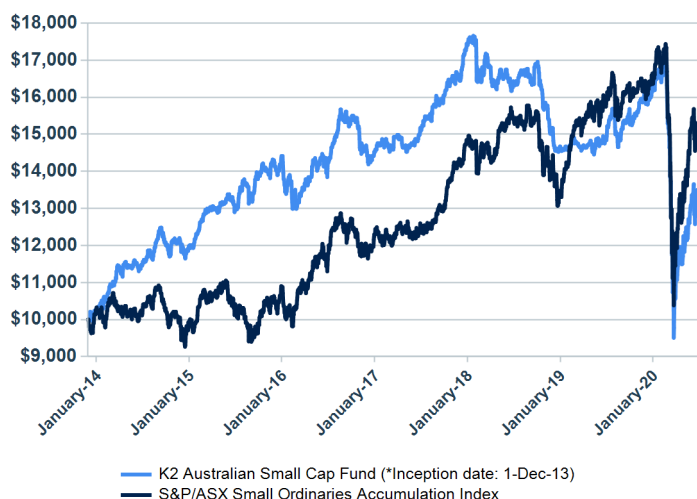
30 June 2020



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	3 Months	1 Year	3 Years (%pa)	5 Years (%pa)	Inception (%pa)	Inception Date
Performance (Net of Fees)	-0.2%	18.8%	-12.1%	-4.9%	0.1%	4.1%	1-Dec-2013
Average Net Exposure	95.8%	81.5%	73.4%	69.1%	75.8%	74.5%	

Growth of \$10,000



Commentary

The K2 Australian Small Cap Fund returned -0.67% for the month of June.

Since COVID-19 was declared a pandemic by the World Health Organisation, Australian listed companies have raised \$30 billion of secondary equity. The surplus equity certainly provides liquidity for businesses throughout the economic lockdown. However, it also creates a drag on earnings per share growth as economic hibernation fades. We are all for ensuring that listed companies survive and then thrive through this extraordinary phase. However, we believe that capital raisings in the future must be for growth supporting ventures. Australian providers of capital need to take some of the responsibility for the local markets single digit ROE. The Small Ordinaries Index is now trading on a PE of 20x and this can only be sustained if ROE's improve by at least 300 basis points over the coming year.

The best performing holdings for the Fund were Netwealth (NWL), Mach7 Technologies (M7T) and Aventus Group (AVN) which rose 8%, 42% and 11% respectively during the month. NWL will most likely provide a 4th quarter business update in July. We would expect NWL to continue to lead the market in net inflows. In addition, stronger asset prices in the June quarter should supplement the end of year level of funds under administration. The fund participated in a M7T capital raising during the month. M7T provides medical imaging solutions to healthcare providers and subsequently acquired Client Outlook Group. The acquisition complements M7T's offering and more than doubles the client base. AVN has experienced improved levels of foot traffic as COVID-19 activity restrictions have been loosened.

The Fund's net exposure for the month averaged 95.8% and no short positions were held during the month. We believe that the Australian economy will continue to improve and will become increasingly driven by domestic activities. Small Cap companies are highly leveraged to this.

Top 5 Stock Holdings	Current	Monthly Move
Netwealth Group Ltd	6.6%	+0.2%
Summerset Group Holdings Ltd	6.1%	+2.2%
Kina Securities Ltd	5.7%	+0.6%
People Infrastructure Ltd	5.1%	+0.2%
Perpetual Ltd	5.1%	+0.9%

Month End Exposures	Current	Monthly Move
Communication Services	3.7%	+0.2%
Consumer	4.8%	-1.9%
Financials	33.2%	+5.0%
Health Care	12.2%	+5.3%
Industrials	21.0%	-0.4%
Information Technology	5.6%	+0.1%
Materials	5.1%	+0.4%
Other	0.4%	+0.0%
Real Estate	10.5%	-2.8%
Number of Positions	38	-2
Gross Equity Exposure	96.5%	+5.8%
Cash Weighting	3.5%	-5.8%
Net Equity Exposure	96.5%	+5.8%

Fund Characteristics

FUM	AUD \$7m
Portfolio Managers	Campbell Neal, David Poppenbeek 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

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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						2.9	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%	
													Incept	30.6	48.5		
													Incept	4.1%pa	6.2%pa	26.5%	-1.1%

(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.