

# K2 Australian Small Cap Fund (Hedge Fund)

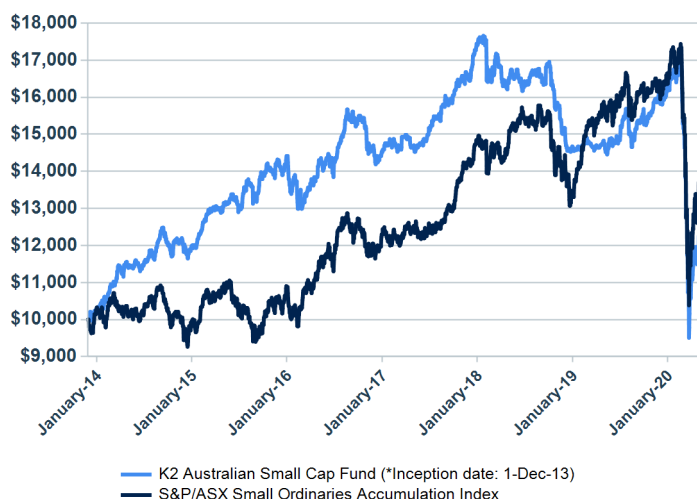
## 30 April 2020



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)	11.4%	-26.3%	-17.4%	-5.8%	-1.2%	3.2%	1-Dec-2013
Average Net Exposure	72.3%	72.4%	69.0%	67.2%	75.7%	74.2%	

### Growth of \$10,000



### Commentary

The K2 Australian Small Cap Fund returned 11.37% for the month of April.

Australia is very well positioned to re-emerge from the COVID-19 induced state of hibernation. During the month, the Governor of the Reserve Bank of Australia (RBA) suggested that the total hours worked in Australia would be 20% lower and by mid-year our unemployment rate would most likely hit 10%. Economists now collectively believe that the Australian economy will shrink by 1.4% over the next twelve months. Although near term economic indicators feel like the economy is in a coma, we believe that the foundations for a long, gradual recovery are being set. It is likely that Australia will bring forward the removal of baseline restrictions in May and improved economic activity should follow. Fortunately, monetary policy has been designed to keep the cost of funding low thus allowing economic momentum to build.

The best performing holdings for the Fund were Seven Group Holdings (SVW) and People Instructure (PPE) which rose 36% and 40% respectively for the month. The Fund recently acquired positions in REIT's such as Charter Hall Social Infrastructure (CQE) which gained 31% and Home Consortium (HMC) which rose 20%. Until recently, high valuations coupled with limited growth prospects dissuaded us from investing in REIT's. However, now that the share prices of many REIT's have fallen 50%, we have found a few selective opportunities that should deliver favourable returns over the coming years. The worst performer for the Fund was Elanor Retail Fund (ERF) which declined by 10%. ERF is a shopping centre REIT that has traditionally focussed on non-discretionary retailing. We sold our position during the month and recycled some of the proceeds back into ERF's management company Elanor Investor Group (ENN).

The Fund's net exposure for the month averaged 72.2%. We have identified some attractively priced industrial companies so higher net exposure should be expected in the future.

Top 5 Stock Holdings	Current	Monthly Move
Netwealth Group Ltd	6.6%	-1.2%
Summerset Group Holdings Ltd	5.5%	-0.1%
Austal Ltd	4.3%	+0.6%
Seven Group Holdings Ltd	4.1%	+1.0%
Aventus Group	3.7%	+3.7%

Month End Exposures	Current	Monthly Move
Communication Services	1.3%	+1.3%
Consumer	8.8%	+1.2%
Financials	22.4%	-3.8%
Health Care	9.1%	+0.6%
Industrials	16.8%	+2.2%
Information Technology	1.9%	+0.0%
Materials	0.0%	-0.2%
Other	0.8%	+0.0%
Real Estate	11.4%	+1.2%
Number of Positions	32	-1
Gross Equity Exposure	72.5%	+2.7%
Cash Weighting	27.5%	-2.7%
Net Equity Exposure	72.5%	+2.7%

### Fund Characteristics

FUM	AUD \$12m
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

**George Boubouras**  
 Head of Research  
 03 9691 6191  
 invest@k2am.com.au

## 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			-17.6	-13.0	29.1%	-1.5%	
													Incept	22.5	37.0		
													Incept	3.2%pa	5.0%pa	26.9%	-1.2%

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

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