

# K2 Australian Small Cap Fund (Hedge Fund)

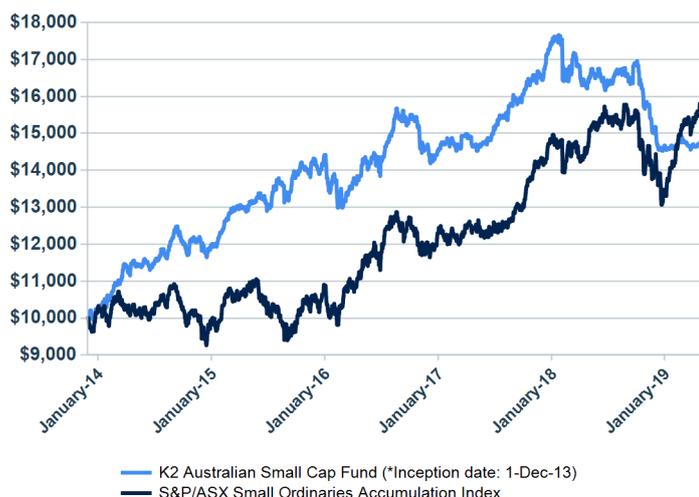
## 30 April 2019



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 Funds' 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)	1.0%	1.4%	-10.0%	1.6%	5.3%	7.5%	1-Dec-2013
Average Net Exposure	50.2%	44.3%	59.4%	74.5%	76.4%	75.1%	

### Growth of \$10,000



### Commentary

The K2 Australian Small Cap Fund returned 1.0% for the month of April.

The recent performance of small cap growth stocks has been nothing short of remarkable, helping drive the ASX Small Ordinaries Accumulation Index 17% in 2019, including 4.1% in April. With no sign of domestic inflation and expectations for rate cuts, investors are appearing to place no emphasis on valuation in their pursuit for growth.

Elanor Funds Management (ENN) has been a core holding for the Fund since its listing in 2014, and was a positive contributor for the month. ENN welcomed a strategic investor onto its register, who acquired an 18% interest in the company. The company is now well positioned to capitalise on future growth opportunities with an enhanced funding position.

A new addition to the Fund portfolio has been Austal Ltd (ASB). ASB is a military and commercial shipbuilder across USA, Australia, South-East Asia and provides support services through six service centres. Although earnings are cyclical, we believe the current outlook supports strong growth, with further upside from margin improvement and tender activity. Increasing global demand for fast ferries, new International Maritime Organisation regulations on sulphur limits and an aging global fleet is helping drive strong order growth. In the context of this outlook, we find the valuation attractive, currently trading on a 2020 expected PE of 16.3x with free cash yield in excess of 10%.

The Fund continues to hold high levels of cash, approximately 46%, and we remain cautious in this market environment. Valuation is a key pillar in our investment process and we believe there is substantial valuation risk embedded in a large cohort of companies. While timing the de-rating is always difficult, we prefer to stick to our process and invest in companies where we feel the risk/reward balance is in our favour.

Top 5 Stock Holdings	Current	Monthly Move
Elanor Investor Group	3.7%	-0.2%
Cedar Woods Properties Ltd	3.6%	+0.3%
Healthia Ltd	3.0%	+0.0%
Seven Group Holdings Ltd	2.9%	+0.3%
Coronado Global Resource-Cdi	2.5%	+0.4%

Month End Exposures	Current	Monthly Move
Communication Services	2.1%	0.0%
Consumer	10.8%	+0.9%
Financials	13.1%	+1.5%
Health Care	8.2%	+0.2%
Industrials	9.3%	+3.3%
Information Technology	1.7%	-1.3%
Materials	5.8%	+0.3%
Real Estate	4.3%	+0.3%
Utilities	0.7%	+0.0%
SHORTS	-2.1%	-0.8%
Number of Positions	37	+3
Gross Equity Exposure	58.1%	+6.1%
Cash Weighting	46.2%	-4.5%
Net Equity Exposure	53.8%	+4.5%

### Fund Characteristics

FUM	AUD \$24m
Portfolio Managers	Campbell Neal, David Poppenbeek, Josh Kitchen and Nicholas Leitl
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

**Nicholas Allen**  
Head of Distribution  
03 9691 6119  
nallen@k2am.com.au

**Sophie Gibbons**  
Head of Distribution  
03 9691 6117  
sgibbons@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			-9.7	2.3	45.7%	-4.1%
												Incept	48.3	58.0		
												Incept	7.5%pa	8.8%pa	26.6%	-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 or information memorandum for general information on any Fund referred to in this document can be obtained at [www.k2am.com.au](http://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.