

# K2 Australian Small Cap Fund (Hedge Fund)

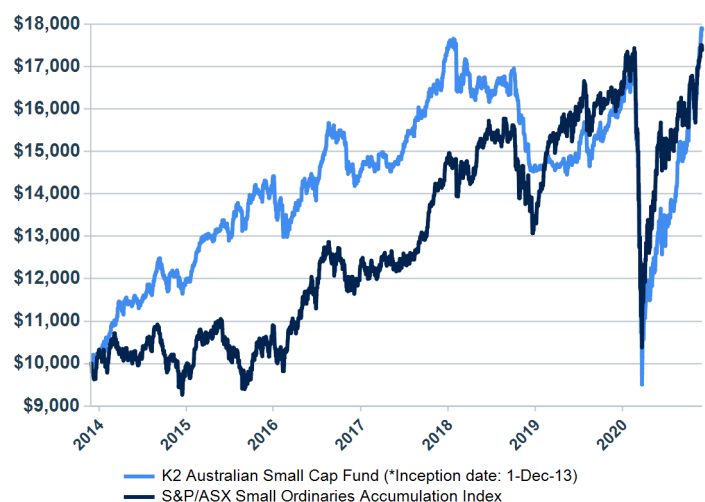
## 30 November 2020



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)	12.1%	8.6%	1-Dec-2013
Average Net Exposure	92.7%	75.6%	

### Growth of \$10,000



Top 5 Stock Holdings	Current	Monthly Move
Pendal Group Ltd	7.7%	+0.5%
Summerset Group Holdings Ltd	7.2%	-0.8%
People Infrastructure Ltd	6.7%	-0.3%
Corporate Travel Management	5.9%	+0.9%
Moelis Australia Ltd	5.1%	+0.1%

Month End Exposures	Current	Monthly Move
Consumer	9.0%	-2.9%
Financials	27.0%	+3.3%
Health Care	12.7%	-1.4%
Industrials	22.3%	-0.9%
Materials	3.9%	+2.8%
Other	3.9%	+3.9%
Real Estate	17.2%	-0.1%
Number of Positions	40	0
Gross Equity Exposure	95.9%	+1.7%
Cash Weighting	4.1%	-1.7%
Net Equity Exposure	95.9%	+1.7%

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### Commentary

The very strong returns continued in November. The K2 Small Cap Fund returned +12.1% for the month of October to be +1.9% ahead of the benchmark (BM). The fund has now returned +36.8% this financial year, well ahead of BM by + 19.8%. Since the March lows the fund is up a very strong +88% outperforming the benchmark by +20.5%. 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.

On the 9th of November, Pfizer announced that its vaccine candidate was 90% effective in preventing COVID-19. Pfizer went on to say that it could produce 1.3 billion doses in 2021. The US 10year bond rate promptly rose by 15 basis points and most commodity prices jumped 10% during the month. Additionally, despite on-going court challenges, it now appears that the US election will be officially called in Biden's favour. However, with government remaining divided, Biden's platform of tax hikes, increased regulation and healthcare reform is now likely to be blocked. This is an ideal backdrop for markets and global equities markets enjoyed their best monthly performance in over 20 years. Interestingly, Value orientated and Cyclical stocks, which will benefit as economies re-open, significantly outperformed their Growth counterparts. We expect this rotation to continue as investors slowly reposition their portfolios.

The best performing holdings for the Fund were Corporate Travel Management (CTD), Money3 Corp (MNY), and Platinum Asset Management (PTM) which rose 37%, 32% and 36% respectively. CTD is extremely well positioned to benefit from an effective COVID-19 vaccine. In addition, CTD will experience improved levels of activity as Australia's domestic borders reopen. CTD's share price has now quadrupled from the March low. MNY is a specialist provider of consumer finance for the purchase or maintenance of vehicles and currently has more than 50,000 active accounts. During the month MNY announced that 1Q'21 profits were 33% higher than last year. In addition, MNY stated that it had secured a new \$250 million warehouse facility. PTM's flagship International Fund has tended to carry a cyclical bias and has subsequently underperformed for a decade. Market conditions look to have finally moved in PTM's favour.

The Fund's net exposure for the month averaged 92.7%. The median holding for the Fund has favourable characteristics when compared to the Small Ordinaries Index; using consensus forecasts for the year ahead the PE is 13% lower, ROE is 18% stronger, and the dividend yield is 42% higher.

### 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								36.8	17.1	7.4%	-0.5%
												Incept	78.7	73.9		
												Incept	8.6%pa	8.2%pa	24.1%	-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](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.