

# K2 Australian Small Cap Fund (Hedge Fund)

## 31 January 2024

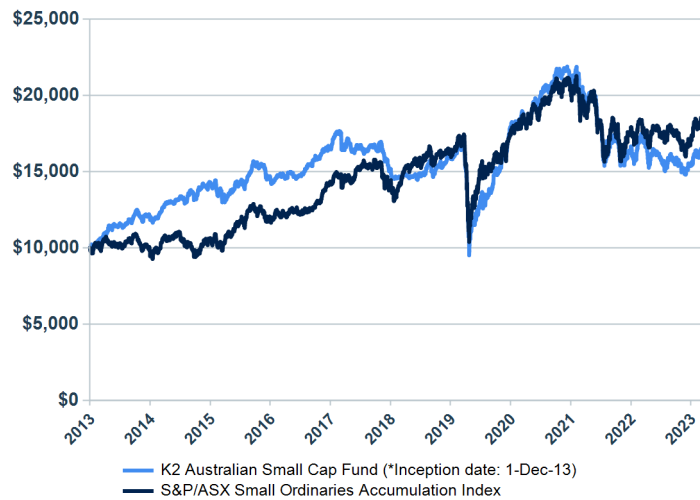


The K2 Australian Small Cap Fund is an Absolute Return equities fund. The fund is index-unaware, aiming to produce positive absolute returns over the long term with a capital preservation mindset. The Fund's mandate allows it to actively manage its net market exposure – utilising both cash and shorts to help protect clients' capital.

	1 Month	Unit Price	Inception (%pa)
Performance (Net of Fees)	1.15%	2.30	5.05%

Refer below detailed performance data matrix

### Growth of \$10,000



Top 5 Stock Holdings	Current	Monthly Move
Seven Group Holdings Ltd	8.4%	-0.6%
Summerset Group Holdings Ltd	5.1%	+0.1%
Corporate Travel Management	4.7%	0.0%
NIB Holdings Ltd	4.4%	+0.2%
Region Re Ltd	4.1%	-0.2%

Market Capitalisation Coverage	Current	Monthly Move
Large Caps >=AUD\$7.5b	8.4%	-2.3%
Mid Caps >=AUD\$2b < AUD\$7.5b	64.7%	+4.6%
Small Caps < AUD\$2b	23.9%	-0.1%

Month End Exposures	Current	Monthly Move
Consumer	13.5%	+1.2%
Energy	5.1%	-0.2%
Financials/Real Estate	24.9%	-0.3%
Health Care	6.5%	+1.6%
Industrials	22.7%	+0.1%
Information Technology	4.2%	+1.5%
Materials	20.3%	-1.6%
Number of Positions	38	+2
Gross Equity Exposure	97.4%	+2.1%
Cash Weighting	2.6%	-2.1%
Net Equity Exposure	97.4%	+2.1%

### Commentary

The K2 Small Cap Fund returned 1.15% for the month.

The December monthly headline inflation rate in Australia was 3.4% higher than a year ago and is now in line with the US and Canada. The price of a number of Australian items have softened over the past few months. However, there continues to be some consistent outliers. Food products and non-alcoholic beverages that are on the shelves of grocers like Woolworths and Coles are sustaining elevated prices. Likewise, insurance premiums for auto and home coverage from providers like IAG and AAMI continue to rise at a brisk rate. The grocers and insurers are supporting higher prices with a narrative that input costs need to be offset. However, supply chains are decongesting, the labour market is rebalancing and capital is more readily available. To our mind, progressive companies continually strive to improve productivity. Higher costs of doing business are thoroughly investigated and remedies are actively sought. The companies that appreciate the needs of all stakeholders in a timely manner typically succeed over a long period of time. These are the durable businesses that our stock selection process favours. We believe that businesses that are taking their customers for granted will be increasingly exposed to competitive and regulatory risks in the future.

During the month a key holding for the Fund, Summerset Group (SUM), announced that, in the December quarter, it had sold 34% more new retirement village occupation rights than last year. Over the same period, New Zealand's total number of building consents declined by 27%. Despite a difficult operating backdrop, SUM has persisted with its development program, completing six villages in the past five years. In addition, SUM should complete construction on another eight villages over the coming five years. As these villages mature, SUM's earning profile will be well supported; profit growth should expand for a number of years and is attractively priced at just 12.7x next years' earnings. SUM is an example of a business that understands the needs of its stakeholders and at the same time is delivering a tangible solution to the housing supply crisis. A typical SUM retirement village is four times more productive with its use of land than the standard broad acre development. In addition, incoming residents normally sell their existing dwelling, therefore providing more accommodation stock for the younger demographics. We see SUM as a durable business that satisfies all of our criteria for a core portfolio position.

### Fund Characteristics

Portfolio Managers	Campbell Neal, David Poppenbeek and Bill Laister
Strategy	Australian and New Zealand Small Cap Equities
Objectives	To deliver consistent 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	25 to 50
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
Investment Horizon	5 Years
Style Bias	Growth At a Reasonable Price
Market Capitalisation Bias	>\$1billion

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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						2.86	3.19	3.06	4.44	0.36	1.15	-1.26	14.52	1.12	41.95%	0.00%
2014/15	3.64	2.57	-0.68	0.50	-1.04	-0.37	2.60	4.48	1.37	-0.22	2.23	-2.11	13.51	0.44	22.50%	0.00%
2015/16	5.71	-2.77	3.61	1.57	1.31	1.20	-3.95	-5.76	4.80	3.33	1.21	-0.40	9.58	14.40	12.48%	-0.20%
2016/17	4.80	3.05	0.00	-1.48	-3.76	-0.39	1.57	-1.54	3.14	-2.28	0.78	2.80	6.50	7.01	15.90%	-0.54%
2017/18	2.08	3.58	0.05	2.86	-0.23	5.91	-0.28	-3.36	0.04	-2.06	1.65	-1.87	8.29	24.25	21.35%	-2.04%
2018/19	1.82	-0.96	2.06	-6.33	-4.24	-3.25	-0.36	1.48	-1.08	1.04	0.31	-0.08	-9.53	1.92	44.79%	-3.92%
2019/20	5.21	-3.19	3.27	-0.11	2.71	1.01	2.56	-8.00	-28.03	11.37	6.81	-0.18	-12.11	-5.67	26.59%	-1.28%
2020/21	4.81	11.25	1.40	3.21	12.13	1.58	0.80	-1.11	2.75	6.18	1.08	3.57	58.25	33.23	5.99%	-0.23%
2021/22	-1.03	4.78	0.19	0.75	-2.02	2.31	-8.61	-1.08	2.50	-0.86	-9.08	-13.71	-24.36	-19.52	8.02%	-0.01%
2022/23	9.20	1.14	-9.78	2.28	3.94	-4.45	8.43	-2.17	-4.84	2.21	-3.10	-3.33	-2.16	8.45	7.44%	-0.20%
2023/24	5.12	-2.13	-1.49	-4.25	3.80	5.92	1.15						7.92	7.37	7.43%	-0.19%
												Incept.	65.10	85.44		
												Incept.	5.06%pa	6.26%pa	19.49%	-0.78%

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

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