

K2 Australian Small Cap Fund (Hedge Fund)

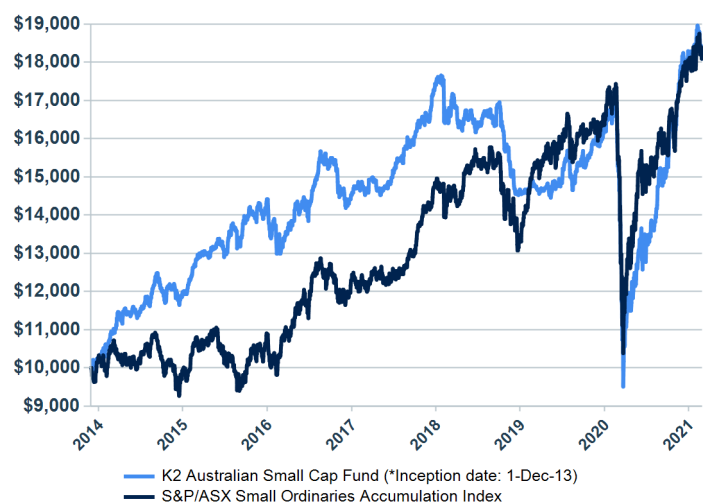
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The K2 Australian Small Cap Fund is an Absolute Return equities fund. The fund is index-unaware, aiming to produce positive absolute returns over the long term with a capital preservation mindset. The Fund's mandate allows it to actively manage its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

| | 1 Month | Inception (%pa) | Inception Date |
|---------------------------|---------|-----------------|----------------|
| Performance (Net of Fees) | -1.1% | 8.5% | 1-Dec-2013 |
| Average Net Exposure | 95.0% | 76.2% | |

Growth of \$10,000



| Top 5 Stock Holdings | Current | Monthly Move |
|------------------------------|---------|--------------|
| Summerset Group Holdings Ltd | 8.6% | +0.4% |
| Pendal Group Ltd | 6.5% | -0.3% |
| Kina Securities Ltd | 6.5% | +0.7% |
| People Infrastructure Ltd | 5.7% | -0.6% |
| Cedar Woods Properties Ltd | 5.2% | -0.1% |

| Month End Exposures | Current | Monthly Move |
|------------------------|---------|--------------|
| Communication Services | 3.1% | +1.0% |
| Consumer | 13.7% | +5.5% |
| Financials | 27.0% | -0.2% |
| Health Care | 13.9% | +0.7% |
| Industrials | 16.1% | -2.5% |
| Information Technology | 1.1% | -0.5% |
| Materials | 4.7% | -0.2% |
| Real Estate | 14.3% | -3.9% |
| Number of Positions | 44 | +2 |
| Gross Equity Exposure | 94.0% | -0.1% |
| Cash Weighting | 6.0% | +0.1% |
| Net Equity Exposure | 94.0% | -0.1% |

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Commentary

The K2 Small Cap Fund returned -1.1% for the month and has now returned +38.6% this financial year, well ahead of benchmark (BM) by +16.7%. Since the March lows the fund is up a very strong +90.4%. 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.

Just like last month, equity markets around the world endured about of selling pressure during the last few days of the month. This time around market participants had to contend with the biggest weekly sell-off in bond prices in over 30 years. It is hard to pinpoint what the exact catalyst was for the rapid decline in bond prices, however, higher commodity prices and the COVID-19 vaccine rollout clearly contributed. We appreciate that bond vigilantes are desperately wanting to call the end to the "lower for longer" interest rate phase. But we are yet to notice any meaningful inflation bottlenecks that would cause central bankers to step back from their quantitative easing (QE) programs. If anything, we feel that the recent spike in interest rates could prompt central banks to increase their near-term velocity of government bonds purchases.

We should not lose sight of the fact that authorities like the Reserve Bank of Australia (RBA) could end up owning a substantial portion of the outstanding government bond inventory; they are not governed by asset allocation committees and, unlike the bond bears, have no problem owning 25% of the stock of government paper. Ultimately the laws of supply and demand will play out so we feel that it may be too early to assume that bond prices can only fall from here.

The best performing holdings for the Fund this month were Kina Securities (KSL), Summerset Group (SUM) and Moelis Australia (MOE) which rose 13%, 6% and 5% respectively. KSL delivered a 25% uplift in profits in CY2020 and a strong ROE of 16%. KSL is in the process of acquiring WBC's Pacific operations which would be significantly accretive. KSL continues to be under-priced given its single digit PE. NZ based retirement and care provider, SUM, is well positioned to generate strong profit growth over the coming years. SUM should deliver nearly 40% more retirement and care beds in CY'21 and the current landbank would expand the existing footprint by 135%. MOE is a boutique financial services company that specialises in asset management and corporate advisory activities. Despite COVID disruptions to its hospitality and shopping centre assets, MOE only experienced a 5% decline in CY'20 EPS. Looking forward, MOE has guided to a 10-20% improvement in earnings in CY'21 and is attractively priced on a PE of less than 15x. Detractors to performance during the month included Netwealth (NWL), Service Stream (SSM) and People Infrastructure (PPE).

Fund Characteristics

| | |
|--------------------|---|
| FUM | AUD \$11m |
| 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 |

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 | 1.6 | 0.8 | -1.1 | | | | | 38.6 | 21.8 | 6.2% | -0.3% |
| Incept | | | | | | | | | | | | | 81.0 | 81.0 | | |
| Incept | | | | | | | | | | | | | 8.5%pa | 8.5%pa | 24.0% | -1.0% |

(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.