

K2 Australian Small Cap Fund (Hedge Fund)

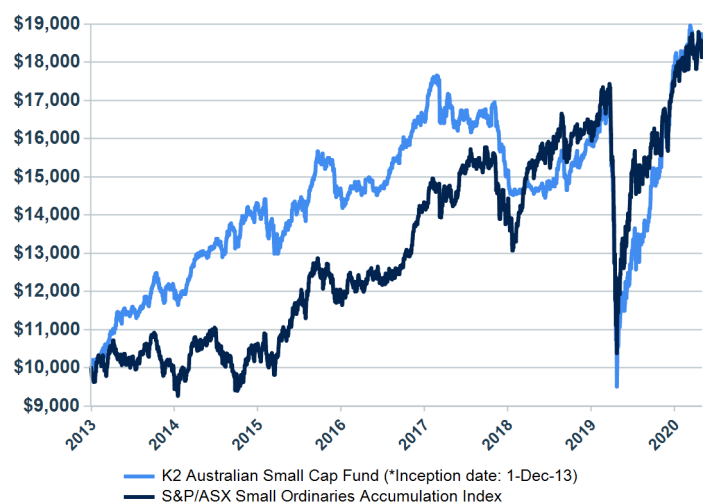
31 March 2021



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	6 Months	1 Year	5 Years (%pa)	Inception (%pa)
Performance (Net of Fees)	2.75%	2.42%	20.41%	69.05%	6.34%	8.83%

Growth of \$10,000



Commentary

The K2 Small Cap Fund returned +2.75% for the month and has now returned +42.4% this financial year, well ahead of benchmark (BM) by +19.6%. Twelve months ago, despite all the fears surrounding the COVID pandemic, we stated that "We believe that today's investment opportunities are as attractive as those that were presented to the Fund during the 1st quarter of 2009". Pleasingly, over the last 12 months the Fund has delivered a +69% return. This is the strongest annual return in the Fund's 8 year life.

So far this year, the Australian equity market has consistently underperformed peer markets. We believe that Australia's relatively slow roll-out of COVID vaccines has been one of the contributing factors to the underperformance. However, the production of the Australian made vaccine has now ramped up and the roll-out will dramatically improve over the coming weeks.

Another factor contributing to the underperformance of the Australian equity market is the removal of the \$90 billion JobKeeper subsidy on March 31. Australian Treasury estimate that between 100,000 and 150,000 JobKeeper recipients may lose employment at the completion of the program. Hence, we are mindful that indicators from Australia's employment market will be volatile over the next quarter. The RBA will not be lifting rates in the foreseeable future, so we feel that the Australian 10 year bond yield at 1.85% is probably getting too high relative to the 0.10% cash rate.

The best performing holdings for the Fund this month were People Infrastructure (PPE), MAAS Group Holdings (MGH) and Pental Group (PDL) which rose 18%, 21% and 9% respectively. During the month PPE acquired a leading Melbourne based nursing agency in an earnings accretive transaction. This is PPE's 2nd acquisition for the year. PPE is debt free, generate an ROE above 20% and is priced on a PE of just 14x. MGH is a specialised provider of construction materials and services and also operates a housing development arm. MGH has performed well following the release of its maiden profit result which was ahead of expectations. PDL is one of Australia's leading asset managers and is attractively priced at just 15x next years' earnings. A number of PDL's funds are approaching high water marks so we envisage a more consistent stream of performance fees over the years ahead.

Top 5 Stock Holdings	Current	Monthly Move
Summerset Group Holdings Ltd	7.8%	-0.9%
Pental Group Ltd	6.9%	+0.4%
People Infrastructure Ltd	6.6%	+0.9%
Moelis Australia Ltd	5.5%	+0.4%
Kina Securities Ltd	5.1%	-1.4%

Month End Exposures	Current	Monthly Move
Communication Services	0.9%	-2.2%
Consumer	12.9%	-0.7%
Energy	0.9%	+0.9%
Financials	23.2%	-3.8%
Health Care	14.5%	+0.6%
Industrials	19.2%	+3.1%
Materials	4.2%	-0.5%
Real Estate	16.2%	+1.8%
Number of Positions	44	0
Gross Equity Exposure	92.0%	-1.9%
Cash Weighting	8.0%	+1.9%
Net Equity Exposure	92.0%	-1.9%

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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						2.86	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	15.89%	-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				42.36	22.79	6.16%	-0.28%
Incept.													85.95	82.39		
Incept.													8.83%pa	8.54%pa	23.96%	-1.03%

(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.