

K2 Australian Small Cap Fund (Hedge Fund)

28 February 2023

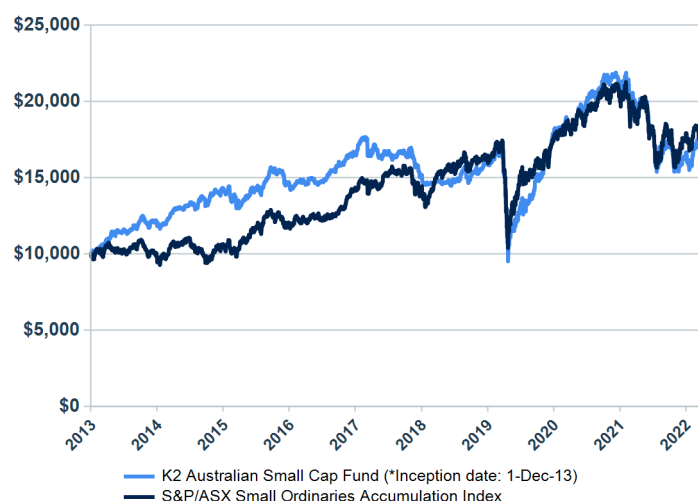


The K2 Australian Small Cap Fund is an Absolute Return equities fund. The fund is index-unaware, aiming to produce positive absolute returns over the long term with a capital preservation mindset. The Fund's mandate allows it to actively manage its net market exposure – utilising both cash and shorts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

	1 Month	Unit Price	Inception (%pa)
Performance (Net of Fees)	-2.17%	2.36	5.76%

Refer below detailed performance data matrix

Growth of \$10,000



Top 5 Stock Holdings	Current	Monthly Move
Summerset Group Holdings Ltd	7.2%	+0.4%
Seven Group Holdings Ltd	6.8%	-0.7%
Peoplein Ltd	6.4%	+0.5%
Abacus Property Group	4.7%	+0.6%
Corporate Travel Management	4.6%	+0.4%

Market Capitalisation Coverage	Current	Monthly Move
Large Caps >=AUD\$7.5b	6.8%	-0.7%
Mid Caps >=AUD\$2b < AUD\$7.5b	32.3%	-4.7%
Small Caps < AUD\$2b	55.5%	+4.6%

Month End Exposures	Current	Monthly Move
Consumer	17.1%	+4.7%
Energy	8.5%	+1.1%
Financials	10.4%	-1.7%
Health Care	11.0%	+0.7%
Industrials/Real Estate	35.7%	+4.9%
Materials	12.3%	-7.3%
Number of Positions	30	-1
Gross Equity Exposure	95.1%	-0.8%
Cash Weighting	4.9%	+0.6%
Net Equity Exposure	95.1%	-0.6%

Commentary

The K2 Australian Small Cap Fund returned -2.17% for the month.

During the month, the Governor of the Reserve Bank of Australia (RBA), Philip Lowe, had to make two appearances before government committees. There was active debate around the merits of RBA's meaningfully tighter stance of monetary policy. Governor Lowe continually reiterated the dangers of inflation becoming ingrained in the public's psyche. Lowe also reinforced that the RBA was highly attuned to the fact that 880,000 fixed rate loan facilities, with an average balance of \$400,000, would mature this year. Offsetting this to some degree would be the additional \$300 billion that households had saved since the onset of the pandemic. However, the RBA is concerned that demand side factors continue to play a role in the elevated level of inflation and tighter monetary policy could assist in the rebalancing of the economy.

Australia's December half reporting season was a little disappointing. Nearly half of the companies in the Small Ordinaries saw downward revisions to next years' EPS projections. However, the magnitude of the downgrades were minor; the median revision was just virtually unchanged. Some of the key takeaways from the reporting season were the intense competition within the mortgage lending industry, the margin protection strategies of the grocers and petrol retailers, and the costs escalation for the resource companies. Despite a few headwinds, the valuation metrics for the Small Ordinaries are still in-line with long averages; on next years' projections the PE is 15.7x and the dividend yield is 3.0%. The Small Resource companies trade on 13.5x forward earnings whereas the PE of the Small Industrials is closer to 20x next years' earnings.

The best performance contributors for the Fund this month were Seven Group (SVW), Acrow Formwork and Construction Services (ACF) and Judo Capital (JDO). Nick Scali (NCK) and Summerset Holdings (SUM) were performance detractors. During the month the Fund acquired positions in JB HiFi (JBH) and Sims Ltd (SGM). The Fund's positions in Netwealth Group (NWL) and News Corporation (NWS) were sold.

The median holding of the Fund has a market capitalisation of \$1.5 billion and, using expectations for the year ahead, has a PE of 11.3x, an ROE of 15.4% and a dividend yield of 4.5%.

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	S&P/ASX Small Ordinaries Accumulation Index + 3%pa
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

George Boubouras
Head of Research
research@k2am.com.au
03 9691 6111

Marcela Tirado
Client Services
invest@k2am.com.au
03 9691 6111

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					7.38	9.83	8.97%	-0.25%
												Incept.	67.89	74.91		
												Incept.	5.76%pa	6.23%pa	20.85%	-0.85%

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

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