

# K2 Australian Small Cap Fund (Hedge Fund)

## 31 March 2023

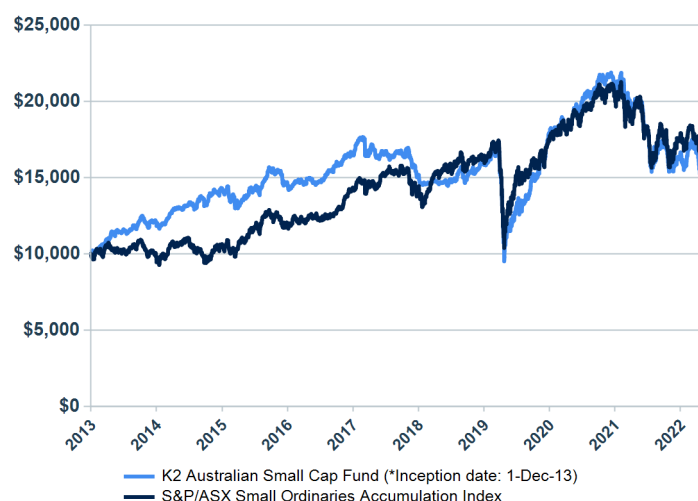


The K2 Australian Small Cap Fund is an Absolute Return equities fund. The fund is index-unaware, aiming to produce positive absolute returns over the long term with a capital preservation mindset. The Fund's mandate allows it to actively manage its net market exposure – utilising both cash and shorts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

	1 Month	Unit Price	Inception (%pa)
Performance (Net of Fees)	-4.84%	2.24	5.15%

Refer below detailed performance data matrix

### Growth of \$10,000



Top 5 Stock Holdings	Current	Monthly Move
Summerset Group Holdings Ltd	7.3%	+0.1%
Seven Group Holdings Ltd	6.7%	-0.1%
Peoplein Ltd	6.1%	-0.3%
Corporate Travel Management	4.8%	+0.2%
Abacus Property Group	4.5%	-0.2%

Market Capitalisation Coverage	Current	Monthly Move
Large Caps >=AUD\$7.5b	6.7%	-0.1%
Mid Caps >=AUD\$2b < AUD\$7.5b	41.6%	+9.3%
Small Caps < AUD\$2b	45.4%	-10.1%

Month End Exposures	Current	Monthly Move
Consumer	22.2%	+5.1%
Energy	3.8%	-0.2%
Financials/Real Estate	25.5%	+0.8%
Health Care	10.8%	-0.2%
Industrials	17.5%	-1.9%
Materials	14.3%	-2.5%
Number of Positions	30	0
Gross Equity Exposure	94.1%	-1.0%
Cash Weighting	5.9%	+1.0%
Net Equity Exposure	94.1%	-1.0%

### Commentary

The K2 Small Cap Fund returned -4.84% for the month.

The Reserve Bank of Australia (RBA) is displaying a pragmatic approach to monetary policy. The RBA has consistently stated that it recognises that monetary policy operates with a lag. Hence, the RBA is comfortable holding Australia's cash rate at a level that is well below peer nations. In doing so, the RBA is in a position to monitor the global economic ramifications of tighter financial conditions. There is also little doubt that the recent ructions within the US regional banking system are, in part, a result of higher interest rates.

The surge in the yield of US bonds during the first few weeks of March caused SVB Financial Group to hastily sell a portion of its held-for-sale treasury assets. SVB attempted to offset the realised loss on the treasury assets with an equity raising. This unnerved depositors and a classic "bank run" followed. Ultimately, all the banking regulations in the world can do little to offset management misjudgements and shareholder complacency. The global banking system is sound, and a dramatic regulatory overhaul is unlikely. Hence, we were surprised to see such weakness within the Australian financial sector during the month. Australian banks are not exposed to the same vulnerabilities as US regional banks, and it is unlikely that A-REITs will experience the withdrawal of lines of credit due to solvency concerns. If anything, we feel that certain A-REITs, such as self-storage businesses, are attractively priced relative to growth prospects.

The best performing holdings for the Fund this month were Maas Group (MGH), Winton Land (WIN) and Iluka Resources (ILU). Detractors to performance were 29Metals (29M), Judo Capital (JDO) and Peoplein (PPE).

During the month the Fund acquired new positions in NIB Holdings (NHF) and Lovisa Holdings (LOV). The Funds' holding in Centuria Capital (CNI) was sold and the position in Patriot Battery Metals (PMT) was reduced.

The median holding of the Fund has a market capitalisation of \$2.3 billion and, using expectations for the year ahead, has a PE of 12.1x, an ROE of 16.2% and a dividend yield of 4.0%.

### 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

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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				2.19	9.04	8.24%	-0.23%
												Incept.	59.78	73.65		
												Incept.	5.15%pa	6.09%pa	20.78%	-0.84%

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

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