

K2 Australian Small Cap Fund (Hedge Fund)

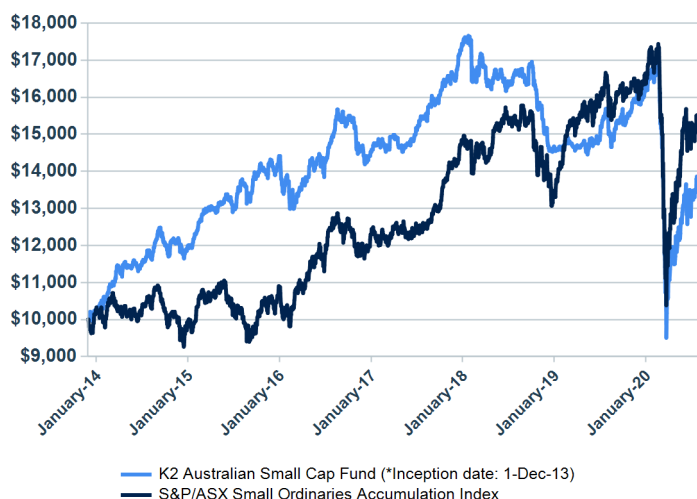
31 July 2020



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	1 Year	3 Years (%pa)	5 Years (%pa)	Inception (%pa)	Inception Date
Performance (Net of Fees)	4.8%	11.8%	-12.4%	-4.0%	-0.1%	4.8%	1-Dec-2013
Average Net Exposure	91.5%	87.9%	75.5%	69.8%	75.9%	74.7%	

Growth of \$10,000



Commentary

The K2 Australian Small Cap Fund returned 4.81% for the month of July.

Over the course of July, Victoria reported over 8,300 new cases of coronavirus. Mid-month the Victorian Premier enforced the Stage 3 "Stay at Home" restriction. By month end, the state had transitioned to curfews and the Stage 4 restriction. There is little doubt that Victoria's mishandling of the coronavirus will have ramifications for Australia's level of economic activity. However, the country will not sink into depression. Over \$300 billion of stimulus has been directed towards Australian households and businesses. Interest rates will clearly stay lower for longer and Australia's listed companies continue to build fortress balance-sheets. To our mind, 1/5th of Australia's economy has gone back into hibernation. The rest of the country has awoken and should quickly adapt to the new rules of doing business.

The best performing holdings for the Fund were Netwealth (NWL) and NZ retirement provider Summerset (SUM) which rose 34% and 21% respectively. NWL announced that it had continued to win share of the Australian platform market. It again led the market in net inflows and has lifted its share to 3.6% to be the #7 player in the market. SUM announced that its first half profit would be about 10% lower than last year but customer activity had improved to be stronger than usual. Data#3 (DTL) also performed well rising 24%. During the month DTL announced that its FY2020 profit would be 28% higher than last years outcome.

The Fund's net exposure for the month averaged 91.5%. The median holding for the Fund has a market capitalisation of \$820 million, trades on 14.6x next years' expected EPS, generates a ROE of 12.6% and is expected to deliver 17% growth in earnings in 2021.

Top 5 Stock Holdings	Current	Monthly Move
Summerset Group Holdings Ltd	7.1%	+1.1%
Netwealth Group Ltd	6.5%	-0.1%
Kina Securities Ltd	5.2%	-0.5%
People Infrastructure Ltd	4.9%	-0.2%
Primewest Group Ltd	4.9%	0.0%

Month End Exposures	Current	Monthly Move
Communication Services	0.5%	-3.2%
Consumer	9.4%	+6.9%
Financials	29.9%	-3.3%
Health Care	13.8%	+1.6%
Industrials	15.3%	-5.7%
Information Technology	6.4%	+0.8%
Materials	4.3%	-0.8%
Real Estate	10.2%	-0.3%
SHORTS	-2.0%	-2.0%
Number of Positions	37	0
Gross Equity Exposure	91.8%	-4.7%
Cash Weighting	12.2%	+8.6%
Net Equity Exposure	87.8%	-8.6%

Fund Characteristics

FUM	AUD \$8m
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

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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						2.9	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												4.8	1.4	8.5%	-0.1%	
													Incept	36.9	50.6		
													Incept	4.8%pa	6.3%pa	24.2%	-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.