

K2 Australian Small Cap Fund (Hedge Fund)

31 May 2024

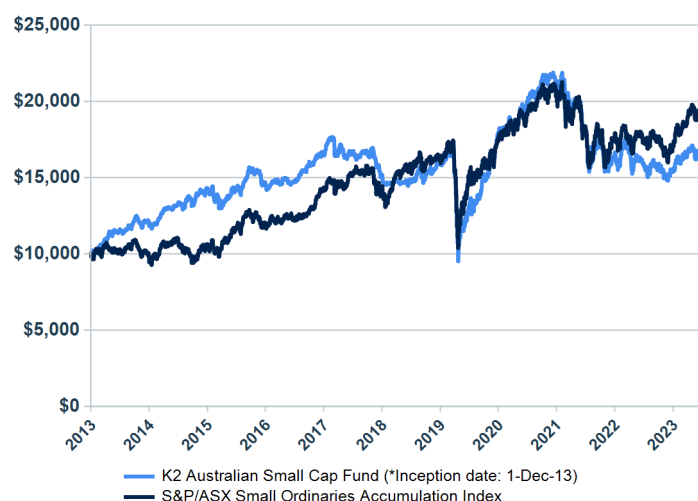


The K2 Australian Small Cap Fund is an Absolute Return equities fund. The fund is index-unaware, aiming to produce positive absolute returns over the long term with a capital preservation mindset. The Fund's mandate allows it to actively manage its net market exposure – utilising both cash and shorts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

	1 Month	Unit Price	Inception (%pa)
Performance (Net of Fees)	-0.63%	2.29	4.82%

Refer below detailed performance data matrix

Growth of \$10,000



Top 5 Stock Holdings	Current	Monthly Move
Seven Group Holdings Ltd	7.7%	+0.0%
NIB Holdings Ltd	5.3%	+0.3%
Summerset Group Holdings Ltd	4.7%	-0.2%
Champion Iron Ltd	4.0%	+1.8%
Acrow Ltd	3.9%	-0.1%

Market Capitalisation Coverage	Current	Monthly Move
Large Caps >=AUD\$7.5b	12.1%	+3.4%
Mid Caps >=AUD\$2b < AUD\$7.5b	47.5%	-9.7%
Small Caps < AUD\$2b	32.2%	+6.9%

Month End Exposures	Current	Monthly Move
Consumer	5.3%	-0.7%
Energy	4.3%	+0.3%
Financials/Real Estate	29.4%	-3.3%
Health Care	6.6%	+0.1%
Industrials	18.5%	+1.5%
Information Technology	1.8%	+1.8%
Materials	26.2%	+3.0%
Number of Positions	35	+1
Gross Equity Exposure	92.1%	+0.7%
Cash Weighting	7.9%	-0.7%
Net Equity Exposure	92.1%	+0.7%

Commentary

The K2 Small Cap Fund returned -0.63% for the month.

The Reserve Bank of Australia (RBA) continues to hold the economy captive. The minutes of the May Monetary Policy Meeting highlighted that the Board only considered two forms of action; lifting interest rates or holding rates steady. They agreed that since the last meeting incoming data had increased the risk that inflation would stay above target for longer than expected. In fact, when considering the case for raising interest rates, the Board pondered the notion that consumer spending could pick up if the labour market remained benign and real household disposable income was to recover. However, we would argue that holding mortgage rates at over 8% for eighteen consecutive months stifles the capacity for households to embrace discretionary consumption. Furthermore, last month there were 14% more unemployed Australians than a year ago. The last time we saw a similar move in the unemployed ranks, excluding COVID, was a decade ago. Hence, we can't help but feel that the RBA is becoming too myopic in its quest to tame the inflation bogie. Unfortunately, the RBA has now allowed itself to become the sole proprietor of the economic grim tidings. In doing so, the RBA can expect a heightened level of public scrutiny. We remain hopeful that the monetary policy setting will pivot towards improving the mindset of Australian households.

During the month Bendigo Bank (BEN) announced that its net interest margin for the year-to-date was holding up better than market participants had expected. BEN had deliberately stepped away from the competitive mortgage market. As a result, most analysts missed the margin preservation strategy and subsequently needed to upgrade their 2024 profit forecast by at least 7%. Following the update, BEN's held its first investor day in more than a decade. We were impressed that BEN's technological focus has enabled a reduction in the time to conditional approval for a loan on its lending platform from five days to six minutes. We would therefore expect to see an improved level of loan originations from the broker channel and this would be particularly beneficial as the mortgage war subsides. We were also pleased with the development of Up which is BEN's digital bank. Up has rapidly grown to 800,000 customers and has aggregated over \$2 billion of deposits. This will enable Up to gradually evolve a loyal base of youthful home borrowers. BEN is well positioned for future growth and remains attractively priced relative to its larger peers.

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	+10% pa over the long term
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	2.21	-3.10	-3.33	-2.16	8.45	7.44%	-0.20%
2023/24	5.12	-2.13	-1.49	-4.25	3.80	5.92	1.15	0.18	3.34	-3.49	-0.63		7.15	10.89	6.28%	-0.12%
												Incept.	63.92	91.52		
												Incept.	4.82%pa	6.38%pa	19.39%	-0.78%

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

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