

# K2 Australian Small Cap Fund (Hedge Fund)

## 30 June 2024

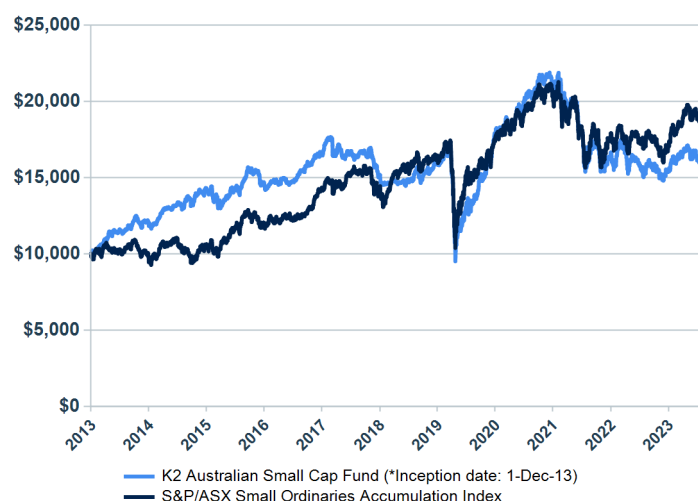


The K2 Australian Small Cap Fund is an Absolute Return equities fund. The fund is index-unaware, aiming to produce positive absolute returns over the long term with a capital preservation mindset. The Fund's mandate allows it to actively manage its net market exposure – utilising both cash and shorts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

	1 Month	Unit Price	Inception (%pa)
Performance (Net of Fees)	-1.88%	2.24	4.59%

Refer below detailed performance data matrix

### Growth of \$10,000



Top 5 Stock Holdings	Current	Monthly Move
Seven Group Holdings Ltd	7.6%	-0.1%
NIB Holdings Ltd	5.4%	+0.0%
Summerset Group Holdings Ltd	4.7%	+0.0%
National Storage REIT	4.1%	+0.2%
Region Re Ltd	4.0%	+1.0%

Market Capitalisation Coverage	Current	Monthly Move
Large Caps >=AUD\$7.5b	12.8%	+0.7%
Mid Caps >=AUD\$2b < AUD\$7.5b	37.7%	-9.8%
Small Caps < AUD\$2b	29.0%	-3.2%

Month End Exposures	Current	Monthly Move
Consumer	3.4%	-1.9%
Energy	3.7%	-0.6%
Financials/Real Estate	38.7%	+9.3%
Health Care	6.8%	+0.1%
Industrials	19.6%	+1.1%
Information Technology	1.9%	+0.0%
Materials	5.9%	-20.3%
Number of Positions	29	-6
Gross Equity Exposure	79.9%	-12.2%
Cash Weighting	20.1%	+12.2%
Net Equity Exposure	79.9%	-12.2%

### Commentary

The K2 Small Cap Fund returned -1.88% for the month.

This month the Small Industrials Index delivered a total return of +1.5% whereas the Small Resources Index was down 8.0%. The poor performance from resource companies was brought about by continued weakness globally in economic activity with all the G3 economies recording sub trend growth. China's property market remains weak despite the government providing a number of stimulus measures over the last quarter. Chinese property completions for June were 20% lower than a year ago and property sales were off by 22% for the year. The Chinese government continues to take small steps to try and stimulate property prices. In an attempt to promote stronger consumer demand, the government is utilising measures such as reducing loan-to-valuation ratios, and enabling State Owned Enterprises to purchase excess property inventory on behalf of lower income households. All these measures, while in the right direction, have not impacted either property prices or demand. Small resource companies need the China demand pulse to quicken.

During the month the Fund established a position in Arena REIT (ARF). ARF develops, owns and internally manages social infrastructure properties. Since listing on the ASX in 2013, ARF has invested more than \$500 million into properties that have long-term triple net leases. Today ARF's portfolio consists of 249 Early Learning Centres (ELC), 9 healthcare properties and 14 ELC development sites. Triple net leases ensure that the tenant meets all outgoings including structural repairs and maintenance. In addition, ELC triple net leases tend to be indexed annually to inflation and have embedded market review clauses. As a result, ARF's base rent per property has risen by 7%pa over the past ten years. ARF has maintained a lean corporate office so expanding margins have driven operating profit growth of 15%pa. ARF's is conservatively geared at 21% which has meant that capital deployment has been tilted towards equity. Hence, since listing, ARF's share count has trimmed the operating profit per share growth rate to +7%pa. Despite its recent success, ARF still has considerable avenues for growth. The Australian Government believes that ELC's enable greater workforce participation which in-turn drives economic prosperity. Therefore, Australia's ELC sector will expand. Although ARF's ELC market share is less than 3% currently, we see a pathway to 5% over the coming years.

### 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	-1.88	5.13	9.35	7.51%	-0.11%	
													Incept.	60.83	88.85		
													Incept.	4.59%pa	6.19%pa	19.50%	-0.77%

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

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