



K2 Australian Small Cap Fund (ASX: KSM) Monthly Report - 31 July 2016

Australian Small Cap Market Review

The K2 Australian Small Cap Fund returned 4.80% for the month of July.

Markets moved on quickly from the Brexit referendum shock to focus on the stimulatory response from central banks across the globe. Domestically, the equity market was faced with an inconclusive election result and possible loss of the AAA credit rating for the nation. However, Malcom Turnbull claimed victory and despite downgrading the outlook, ratings were left unchanged. This paved the way for investors to chase equities as Aussie 10-year government bond yields fell to 1.84%, their lowest level on record.

All sectors within the Small Cap Index finished the month higher, with Consumer sectors the best performers while Energy related companies lagged. The Fund's performance benefited from holdings in Updater Inc, Motorcycle Holdings and SmartGroup Corp. The largest detractors were Tech Mpire, Yowie Group and Orocobre.

Portfolio Insight

The Fund remains well exposed to equity markets with 93% net equity exposure. Consumer facing companies represent the largest sector weight within the portfolio.

Updater Inc has been a key holding for the Fund since the IPO in December 2015 and one which we have written about previously (see December 2015 report). Despite delivering shareholders +58% return in July, we believe significant upside remains from these levels given the operational milestones achieved to date. With the company's share of all US movers approaching 5%, 6 months earlier than forecast, it announced a pilot partnership with one of the largest property and casualty insurers in the United States; Liberty Mutual Insurance. This pilot partnership validates the unique value the Updater platform provides for major national insurance companies. Specifically, insurance companies are continuing to increase the marketing spend in an attempt to arrest customer retention rate declines. Liberty Mutual marketing spend is near USD500m as companies search for targeted strategies to engage with consumers during the all-important relocation process.

While certain assumptions need to be made in order to capture the revenue and market opportunity for this insurance vertical, the earnings potential for Updater is considerable. The next key milestones for the company are the updated progress on the pilot, continued market share gains and signed pilots across different verticals. As always, we will continue to monitor the company's progress closely and position the portfolio accordingly.

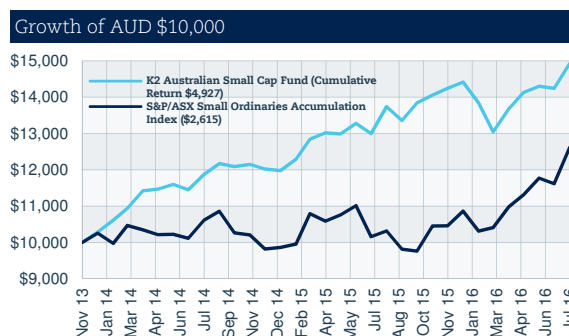
Outlook

The investment landscape continues to be shaped by macro-economic events, with the US election the next major political hurdle on the horizon. Given the possibility of Donald Trump being elected as the 45th United States President, markets will likely tread cautiously in the lead up, given the unexpected outcome from Brexit. This reinforces our view that interest rates, both domestically and globally, will remain lower for longer. The domestic reporting season will be a key feature for investors over the next month. Given the rolling 12 month 15% outperformance of Small Industrials versus their Large cap counterparts, delivery of earnings remains paramount. We are confident in the outlook for companies in our portfolio and look forward to gaining further insights into the operating environment over the reporting season.

Top 5 Stock Contributions - July

Largest	Baby Bunting Group Ltd, Catapult Group International, Motorcycle Holdings Ltd, Smartgroup Corp Ltd, Updater Inc
Smallest	MOQ Ltd, Medical Developments International, Orocobre Ltd, Tech Mpire Ltd, Yowie Group Ltd

Performance to 31 July 2016 (net of fees)	
1 Month	4.80%
3 Months	5.65%
6 Months	7.82%
1 Year	8.64%
Since Inception (pa)	16.21%



Returns are based on NAV per unit plus distributions reinvested net of management fee and performance fee accruals. The method for calculating the NAV is set out in the Fund's PDS.

Fund Details (Unaudited)	
NAV Per Unit:	A\$2.62
Fund Size:	A\$23.1m
Start Date:	1-Dec-13

Top 5 Holdings	Sector	%
Medical Developments International	Cons. Non-Cyc	5.4
Baby Bunting Group Ltd	Cons. Cyclical	3.8
Capilano Honey Ltd	Cons. Non-Cyc	3.6
Peet Ltd	Financial	3.0
AMA Group Ltd	Cons. Cyclical	3.0

Sector Exposure %			
	Long	Short	Net Equity
Basic Materials	1.1	-	1.1
Communication	10.1	-	10.1
Cons. Cyclical	19.2	-	19.2
Cons. Non-Cyc	29.5	-	29.5
Energy	0.5	-	0.5
Financial	20.8	-	20.8
Industrial	4.5	-	4.5
Technology	7.4	-	7.4
Total Equity	93.1	-	93.1
Total Cash			6.9
Total Equity and Cash Exposure			100.0

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