

## K2 Asset Management

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# KSM - K2 Australian Small Cap Fund (Hedge Fund) Monthly Report - 30 September 2016

## Australian Small Cap Market Review

The K2 Australian Small Cap Fund was flat for the month of September.

Although Australia's key mining commodity of iron ore was down -5.3% for the month, it was once again the small cap miners driving outperformance. Gold added only +0.5% for the month, yet gold miners and large index constituents Evolution Mining (+15.1%) and Independence Group (+13.9%) led the index higher. We continue to monitor the discrepancy between stock prices and underlying commodities as investor positioning continues to be a key driver of outperformance.

Macro events were significant in September and we took confidence from the fact smaller companies performed well through the volatility. Neither US rate hike worries, nor a brazen Donald Trump performance in the first presidential debate, did anything to hurt market sentiment. We believe this augurs well for the remainder of 2016.

Key performers for the Fund were Updater, Money3 and AMA Group.

## Portfolio Insight: Updater Inc

Updater (UPD) is a stock we have held since IPO, and first wrote about in our December quarterly update. Since listing, the US based online moving platform has aggressively grown market share and signed two significant pilot studies.

The addressable market encompasses more than 17 million residential moves each year in the US, with student related moves accounting for an additional 10 million. The mover proposition is that activities associated with moving house (Utilities / Insurances etc...) are simplified. The corporate proposition is that current and potential customers are identified at a key churn event. US corporates currently spend an estimated \$50b on advertising per annum to reach consumers with a scattergun approach. Given the platform delivers movers to corporates at the key churn event, we believe these advertising dollars can shift to UPD given the highly optimised ROI on each targeted advertising dollar.

Credibility was recently enhanced as Liberty Mutual and various traditional moving companies signed up to pilot programs. A September capital raising also leaves UPD with approx. \$45m net cash and fully funded to execute the strategy. We expect momentum to accelerate into year end, while awaiting the key upcoming catalyst as pilot results are released.

## Outlook

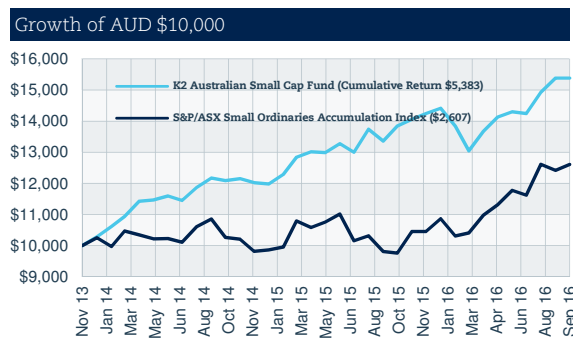
While the upcoming US election and potential US rate rise ensures a noisy macro environment into year end, we remain of the view that opportunities still exist in the small companies universe. While acknowledging the liquidity risk involved with small cap investing, we continue to find companies exhibiting faster growth, cheaper valuations and superior business models than many of their large cap counterparts.

Our current net exposure of 93% best reflects the opportunities we see for Australian smaller companies going forward. While we feel our portfolio is extremely well positioned to deliver continued performance, we continue to 'get out to find out' in search of our next best idea. Confidence in company management underpins our thinking and we see regular contact as a crucial ingredient in optimising the portfolio going forward.

## Top 5 Stock Contributions - September

<b>Largest</b>	AMA Group Ltd, Amaysim Australia Ltd, Money3 Corp Ltd, SDI Ltd, Updater Inc
<b>Smallest</b>	Motorcycle Holdings Ltd, Synlait Milk Ltd, Tech Mpire Ltd, Tegel Group Holdings Ltd, Think Childcare Ltd

Performance to 30 September 2016 (net of fees)	
1 Month	0.00%
3 Months	8.00%
6 Months	12.50%
1 Year	11.14%
Since Inception (pa)	16.42%



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\$2.70
Fund Size:	A\$23.2m
Start Date:	01-Dec-13

Top 5 Holdings	Sector	%
Medical Developments International	Cons. Non-Cyc	4.8
Baby Bunting Group Ltd	Cons. Cyclical	4.3
Updater Inc	Technology	4.2
AMA Group Ltd	Cons. Cyclical	3.5
Capilano Honey Ltd	Cons. Non-Cyc	3.3

Sector Exposure %			
	Long	Short	Net Equity
Basic Materials	1.2	-	1.2
Communication	8.8	-	8.8
Cons. Cyclical	22.4	-	22.4
Cons. Non-Cyc	26.0	-	26.0
Financial	19.4	-	19.4
Industrial	5.6	-	5.6
Technology	9.5	-	9.5
<b>Total Equity</b>	<b>92.9</b>	<b>-</b>	<b>92.9</b>
<b>Total Cash</b>			<b>7.1</b>
<b>Total Equity and Cash Exposure</b>			<b>100.0</b>

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