

# K2 Australian Small Cap Fund (Hedge Fund)

## 30 November 2023

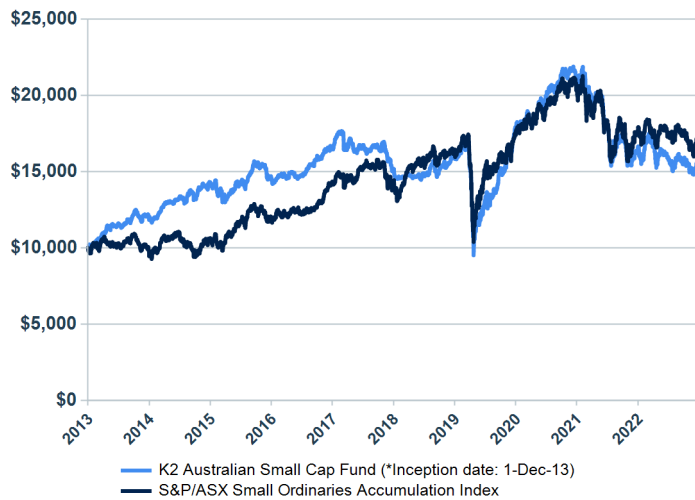


The K2 Australian Small Cap Fund is an Absolute Return equities fund. The fund is index-unaware, aiming to produce positive absolute returns over the long term with a capital preservation mindset. The Fund's mandate allows it to actively manage its net market exposure – utilising both cash and shorts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

	1 Month	Unit Price	Inception (%pa)
Performance (Net of Fees)	3.80%	2.15	4.42%

Refer below detailed performance data matrix

### Growth of \$10,000



Top 5 Stock Holdings	Current	Monthly Move
Seven Group Holdings Ltd	8.7%	+0.4%
Corporate Travel Management	4.8%	-0.1%
NIB Holdings Ltd	4.7%	+0.2%
Summerset Group Holdings Ltd	4.7%	-0.7%
Netwealth Group Ltd	4.5%	+0.3%

Market Capitalisation Coverage	Current	Monthly Move
Large Caps >=AUD\$7.5b	8.7%	+0.4%
Mid Caps >=AUD\$2b < AUD\$7.5b	51.9%	+0.7%
Small Caps < AUD\$2b	27.8%	+0.4%

Month End Exposures	Current	Monthly Move
Consumer	4.8%	-0.1%
Energy	5.7%	+0.4%
Financials/Real Estate	29.7%	-1.5%
Health Care	5.4%	+0.0%
Industrials	22.8%	+1.1%
Information Technology	1.9%	+1.9%
Materials	18.7%	-0.4%
SHORTS	-0.4%	+0.1%
Number of Positions	34	+4
Gross Equity Exposure	89.2%	+1.3%
Cash Weighting	11.6%	-1.5%
Net Equity Exposure	88.4%	+1.5%

### Commentary

The K2 Small Cap Fund returned 3.80% for the month.

The Australian economy is expected to expand by just 1% over the year ahead and, given the level of household disposable income constraint, the case for rate cuts in 2024 is building. A significant number of Australian mortgages have already transitioned from low fixed rates to high variable interest rates. This has coincided with inflated household running costs thanks to stubbornly high energy, insurance and food product prices. Fortunately, the most recent inflation reading was below expectations and it seems likely that this trend could continue into the end of the year. If the RBA has fallen behind the inflation curve, a more lenient interest rate setting in 2024 should follow and this in turn would help unpin private consumption and residential investment.

Inflationary fears are also dissipating in the US. Over the past twelve months, the headline annual inflation rate in the US has contracted by 450 basis points to 3.2%. The Chairman of the Federal Reserve (FED), Jerome Powell, has consistently stated that interest rates need to be restrictive until there is confidence that the inflation pathway has a destination of 2% over time. Economists now believe that US inflation will be 2.8% next year hence the market has priced in four rate cuts in 2024. As a result, the US dollar has now fallen nearly 4% from its recent high in October. This weakness in the US dollar has helped drive the gold price to an all-time high of US\$2,050/oz. The gold price has also been supported by physical purchases by European banks, entities in China, as well as by traders looking to hedge against heightened geopolitical tensions in the Middle East and the Ukraine.

The Fund's largest gold holding is Perseus Mining (PRU). Perseus is an Australian miner that currently operates three gold mines in Africa. In FY2023, Perseus produced 535koz of gold at an operating cost of US\$959/oz. PRU is one of the lowest cost gold producers, and currently has close to A\$900m of cash and no debt. Perseus recently purchased a 19.9% holding in Ore Corp for A\$45.0m which has a development project in Tanzania that contains 2.6moz (40.0mt @ 2.07g/t). Perseus has the balance sheet to fund a full acquisition of Ore Corp as well as the development of the Nyanzaga Gold Project in Tanzania. Perseus is attractively priced at just 9x next years expected earnings.

### 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								0.73	-0.76	8.28%	-0.11%
												Incept.	54.09	71.40		
												Incept.	4.42%pa	5.54%pa	19.57%	-0.77%

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

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