

# Annapurna MicroCap Fund

## 31 October 2020

**Annapurna  
Microcap  
Fund**

The Annapurna Microcap fund is a high conviction Nanocap, Microcap and Smallcap fund managed by leading Microcap professionals. The fund aims to deliver superior risk-adjusted returns through the investment cycle while protecting client's invested capital.

	1 Month	Inception (%pa)	Inception Date
Performance (Net of Fees)	5.2%	5.2%	1-Oct-2020
Average Net Exposure	66.7%	41.1%	

### Growth of \$10,000



Figure 1: Beam Communications (BCC) is owned by the Annapurna Microcap fund. Beam sells satellites phones and has developed an innovative satellite SMS (Zoleo) device that also connects to Wi-Fi and cellular networks. We have bought and use Zoleo device (as depicted) prior to investing.

Month End Exposures	Current	Monthly Move
Consumer	2.6%	+2.6%
Financials	9.2%	+7.5%
Health Care	6.3%	+6.3%
Industrials	11.0%	+11.0%
Information Technology	16.4%	+16.4%
Materials	26.5%	+26.5%
Real Estate	2.4%	+2.4%
Number of Positions	23	+21
Gross Equity Exposure	74.6%	+72.8%
Cash Weighting	25.4%	-72.4%
Net Equity Exposure	74.6%	+72.8%

**George Boubouras**  
Head of Research  
invest@k2am.com.au

### Commentary

The Annapurna Microcap Fund returned +5.2% for the month of October. This was the first month for the new microcap fund which was launched by the experienced microcap portfolio managers Stephen Scott and Bill Laister. Previously, they have successfully managed the largest nanocap and microcap mandates in Australia for over twenty years. The aim of the new Annapurna Microcap Fund is to deliver superior risk-adjusted returns in microcaps through the investment cycle and find the true emerging leaders of tomorrow.

Annapurna Microcap Fund offers diversified exposure to emerging companies with one of the most experienced microcap investment teams in Australia. The nanocap and microcap sectors are a different specialist segment and complement exposure to the broader equity market. The microcap sector also offer sector diversification and complement the exposure to the broader equity market. This resource intensive investment approach from the Annapurna team has in the past led to the successful investments of many new leaders of today.

During the month, the Australian Treasurer delivered the 2020/21 Budget. For the year ahead the underlying deficit is expected to be \$213 billion (11% of GDP) and gross debt is estimated to reach \$872 billion (45% of GDP). The Budget included nearly \$100 billion of support in response to the COVID pandemic. Personal income tax relief, business investment incentives, a targeted modern manufacturing strategy and new and accelerated infrastructure projects have all been designed to rebuild the economy. The RBA Governor also delivered a speech that suggested that interest rates could be lower for longer; potentially for up to 3 years. Then late in the month it was announced that Victoria would move out of COVID lockdown and gradually progress towards reopening. As a result of all these suite measures, we believe that Australian Microcap equity investment environment is favourable.

The Annapurna fund had solid start in its first month in operation. Performance came from a range of industrial and resource names. Material contributors included Aridien (ADV) gold explorer, Dropsuite (DSE) software, Bisalloy (BIS) steel value adder, Skyfii (SKF) software and Mydeal (MYD) internet retail. Pleasingly fundamentally strong quarterly (4C) report/exploration/AGM releases were behind many of the contributors within the fund. Detractors included Technique (TCN) software which is seeking to change its corporate structure but remains in a sound condition.

We are seeing heightened IPO activity and we are being very selective. The fund also holds some cash to take advantage of opportunities as they arise.

### Fund Characteristics

<b>FUM</b>	AUD \$1.3m
<b>Portfolio Managers</b>	Bill Laister and Stephen Scott
<b>Strategy</b>	Nanocap/microcap and Small cap stocks. The fund is focussed on Australian opportunities but can invest in international microcap and small cap stocks
<b>Objectives</b>	The fund aims to deliver superior risk adjusted returns through the investment cycle while protecting client's invested capital. The fund will aim to limit capacity to \$50m or below.
<b>Return Target</b>	To return 10% p.a net of fees over a 3-5 year investment cycle
<b>Number of Stocks</b>	Concentrated NanoCap/Microcap portfolio of 20- 50 stocks
<b>Cash</b>	Able to use cash/shorting/gearing up-to 130% as opportunities arise
<b>Distributions</b>	Annually
<b>Management Fee</b>	1.025%
<b>Buy/Sell</b>	Daily Application, Monthly Redemption (Minimum of 90 days' notice prior to a Redemption Day)
<b>Performance Fee</b>	20.5% pa of the amount by which the NAV per unit exceeds the High Water Mark once the fund achieves its 6% hurdle



**Stephen Scott**  
**Annapurna Microcap Fund - Portfolio Manager**

- ▶ Responsible for the management of the microcap fund
- ▶ Long track record in the nanocap and microcap investing
- ▶ Over 25 years funds management experience domestically and globally

Over 25 years experience and a leading emerging companies / microcap portfolio manager. His roles have included Head of Research, Senior Portfolio Manager, Microcap Industrial Analyst and Senior Analyst. Stephen has been involved in portfolio management and construction, economic analysis and securities research throughout his career and was part of the largest microcap investment team and mandate in Australia.

Stephen has both domestic and global experience having worked in London, New York and Sydney in Senior funds management, investment research and management roles. Stephen has worked for Westpac, Deutsche Asset Management, Ord Minnett, Contango Asset Management, MAP Capital and Taylor Collison.



**Bill Laister**  
**Annapurna Microcap Fund - Portfolio Manager**

- ▶ Responsible for the management of the microcap fund
- ▶ Long track record in the nanocap and microcap investing
- ▶ Over 30 years funds management experience

Over 30 years experience in the financial services industry as Senior Portfolio Manager, Head of Australian Equities, Head of Trading and Resources Analyst. He has worked at several organisations as Senior Portfolio Manager at Contango Asset Management (initial shareholder, 1999), Head of Australasian Equities HSBC AM, Director Contango MicroCap Ltd (ASX listed) and various roles at Wilsons & Co and Morgans Stockbroking in the 1980s.

Bill has been involved in resources analysis, portfolio construction and management through out his career. He launched the first Australian MicroCap mandate in 2004 and grew FUM to be the largest in the local market He travels regularly reviewing greenfield sites, mining operations and growth opportunities for companies.

DISCLAIMER: Returns are shown after fees (including performance fees) and expenses have been deducted and assume the reinvestment of income distributions. Please note that past performance is not a reliable indicator of future performance. The information contained in this document is produced by K2 Asset Management Ltd ("K2") in good faith, but does not constitute any representation or offer by K2. It is subject to change without notice, and is intended as general information only and is not complete or definitive. K2 does not accept any responsibility, and disclaims any liability whatsoever for loss caused to any party by reliance on the information in this document. A product disclosure statement for general information on any Fund referred to in this document can be obtained at [www.k2am.com.au](http://www.k2am.com.au) or by contacting K2. You should read the product disclosure statement and consider whether the product is appropriate for you before making a decision to acquire or continue to hold an interest in a Fund. Fees referred to in this document are inclusive of GST and RITC and do not include expense recoveries.