

K2 Australian Small Cap Fund (Hedge Fund)

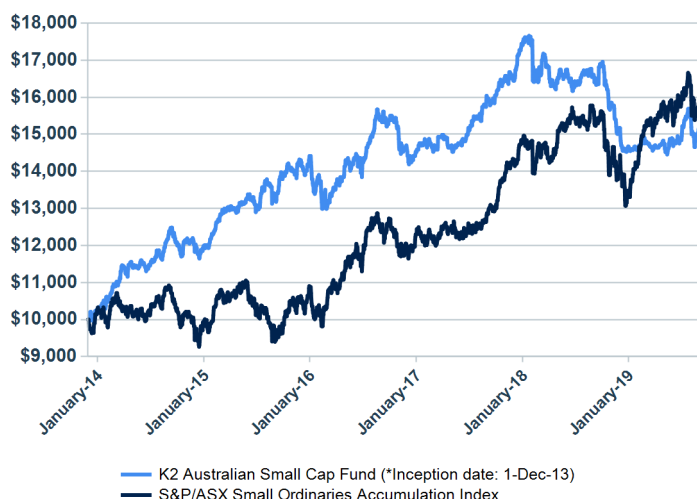
31 August 2019



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	3 Months	1 Year	3 Years (%pa)	5 Years (%pa)	Inception (%pa)	Inception Date
Performance (Net of Fees)	-3.2%	1.8%	-8.6%	-0.5%	4.5%	7.5%	1-Dec-2013
Average Net Exposure	67.2%	65.5%	53.7%	71.1%	76.6%	74.4%	

Growth of \$10,000



Commentary

The K2 Australian Small Cap Fund returned -3.2% for the month of August.

The June profit reporting season this year was unsurprisingly weak. During the period election jitters and trade war rhetoric certainly impacted consumer and business activity. We noted that during August sell-side analysts downgraded next year's EPS estimate for 52% of the small companies that we analyse. The last time we saw as many downgrades was during the European debt crisis in 2011. The Small Ordinaries Accumulation Index fell -3.9% for the month.

The Fund's holdings in Elanor Investors Group (ENN) and Smartgroup (SIQ) rose 25% and 18% respectively for the month. ENN is specialist asset manager. The group operates a capital light business model that invests in real estate. ENN has a particular strength in segments such as retail, commercial office and hotels. ENN has an active approach to asset management and since listing in 2014 has achieved an average IRR of 18% across all realised investments. The Fund has been a holder in ENN since the IPO and has enjoyed an 18.9%pa total return. The Fund's holdings in companies with a market capitalisation less than \$250m were the largest detractor to performance. The Fund has sold out of 8 illiquid companies so far this year; emerging companies now account for just 20% of the Fund's exposure.

The Fund's net exposure for the month averaged 67.2%. We are of the view that Australian companies are gradually becoming more constructive towards capital expenditure. As a result it is likely that the Fund's net exposure will rise over the coming months. We believe that Australia is well positioned in this world of trade conflict; we have natural resources that the world can not do without.

Top 5 Stock Holdings	Current	Monthly Move
Healthia Ltd	3.7%	-0.7%
Moelis Australia Ltd	3.7%	+0.0%
Seven Group Holdings Ltd	3.3%	-0.2%
Austal Ltd	3.3%	+0.2%
People Infrastructure Ltd	3.2%	+0.1%

Month End Exposures	Current	Monthly Move
Communication Services	2.1%	-0.9%
Consumer	9.9%	-2.2%
Financials	16.1%	-3.1%
Health Care	11.5%	+1.3%
Industrials	15.4%	+0.6%
Materials	3.7%	-0.4%
Real Estate	5.7%	+2.5%
Utilities	1.8%	-0.1%
Number of Positions	37	-2
Gross Equity Exposure	66.3%	-4.2%
Cash Weighting	33.7%	+2.3%
Net Equity Exposure	66.3%	-2.3%

Fund Characteristics

FUM	AUD \$18m
Portfolio Managers	Campbell Neal, David Poppenbeek and Josh Kitchen
Strategy	Australian and New Zealand Small Cap Equities
Objectives	To deliver consistent absolute 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	Up to 100
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

Andrew Kang
Business Development Manager
03 9691 6105
akang@k2am.com.au

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						2.9	3.2	3.1	4.4	0.4	1.2	-1.3	14.5	1.1	41.9%	0.0%	
2014/15	3.6	2.6	-0.7	0.5	-1.0	-0.4	2.6	4.5	1.4	-0.2	2.2	-2.1	13.5	0.4	22.5%	0.0%	
2015/16	5.7	-2.8	3.6	1.6	1.3	1.2	-4.0	-5.8	4.8	3.3	1.2	-0.4	9.6	14.4	12.5%	-0.2%	
2016/17	4.8	3.1	0.0	-1.5	-3.8	-0.4	1.6	-1.5	3.1	-2.3	0.8	2.8	6.5	7.0	15.9%	-0.5%	
2017/18	2.1	3.6	0.1	2.9	-0.2	5.9	-0.3	-3.4	0.0	-2.1	1.7	-1.9	8.3	24.2	21.3%	-2.0%	
2018/19	1.8	-1.0	2.1	-6.3	-4.2	-3.3	-0.4	1.5	-1.1	1.0	0.3	-0.1	-9.5	1.9	44.8%	-3.9%	
2019/20	5.2	-3.2											1.8	0.5	32.9%	-1.2%	
													Incept	51.4	58.2		
													Incept	7.5%pa	8.3%pa	27.4%	-1.1%

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

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 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.