

K2 Australian Small Cap Fund (Hedge Fund)

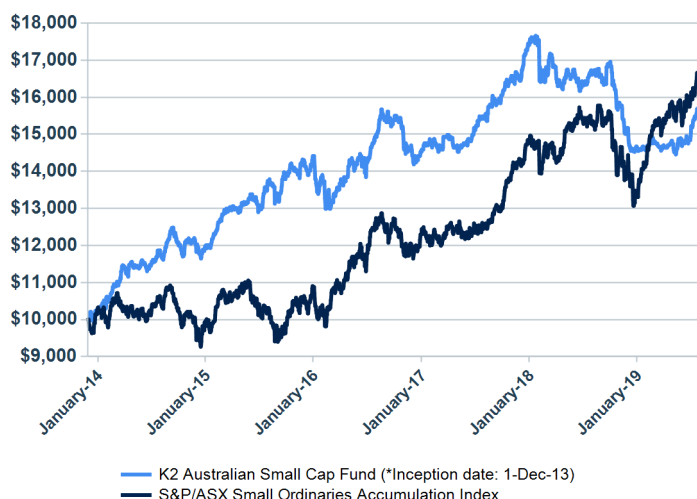
31 July 2019



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)	5.2%	5.4%	-6.5%	1.6%	5.7%	8.2%	1-Dec-2013
Average Net Exposure	66.9%	62.0%	54.4%	71.9%	76.6%	74.5%	

Growth of \$10,000



Commentary

The K2 Australian Small Cap Fund returned 5.2% for the month of July.

The Small Ordinaries Accumulation Index increased by 4.5% as the Australian broader equity market finally recovered its pre-GFC high to reach a new record during the month. Domestic equity market gains have been aided by the first back to back rate cuts since 2012 with further cuts likely. The yield on Australian 10-year bonds has compressed by 146bp over the last 12 months and is trading at an all-time low of 1.19% at the end of July. This has created a premium for growth, driving an expansion in the average PE ratio to over 2 standard deviations above the market's long term mean. Company earnings growth needs to rise and/or the 10-year government bond yield needs to approach zero to justify the multiple re-rating.

A positive contributor to Fund performance included Healthia (+35%), a position the Fund has held since it listed in September last year. Healthia operates in the highly fragmented Physiotherapy and Podiatry market with no single operator owning more than 3%. The company has a co-owner clinic model with a self-funded acquisition profile to consolidate the sector and deliver significant long term growth to shareholders. The last 2 months have seen the company announce a string of new acquisitions that will see total clinics rise from 102 at the time of IPO to 128 on settlement. The company has now made up the shortfall from a slower start and is positioned for significant earnings growth in FY20. The company is trading on an FY20 PE of 11x and a yield of 4% with significant scope to more than double earnings over the next few years. Other strong performers throughout the month were Austal Limited (+20%), after significantly upgrading FY20 profit guidance, Calix (+25%), Ooh!Media (+15%), Kina Securities (+14%), AUB Group (14%) and Cedar Woods (+13%).

Net exposure increased slightly during the month to 69%, with the Fund continuing to hold high levels of cash (31%).

Top 5 Stock Holdings	Current	Monthly Move
Healthia Ltd	4.4%	+1.1%
Elanor Investor Group	4.4%	+0.1%
Moelis Australia Ltd	3.7%	+0.4%
Seven Group Holdings Ltd	3.5%	-0.1%
People Infrastructure Ltd	3.1%	-0.9%

Month End Exposures	Current	Monthly Move
Communication Services	2.9%	-1.2%
Consumer	12.1%	+0.0%
Financials	19.3%	+2.3%
Health Care	10.2%	+3.3%
Industrials	14.9%	-1.9%
Materials	4.2%	-2.2%
Other	0.8%	+0.8%
Real Estate	3.2%	+0.2%
Utilities	1.9%	+0.3%
SHORTS	-1.0%	+1.1%
Number of Positions	39	+5
Gross Equity Exposure	70.6%	+0.5%
Cash Weighting	31.4%	-2.6%
Net Equity Exposure	68.6%	+2.6%

Fund Characteristics

FUM	AUD \$18m
Portfolio Managers	Campbell Neal, David Poppenbeek, Josh Kitchen and Nicholas Leitl
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

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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						2.9	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												5.2	4.5	33.1%	-1.8%	
													Incept	56.4	64.6		
													Incept	8.2%pa	9.2%pa	27.4%	-1.2%

(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.