

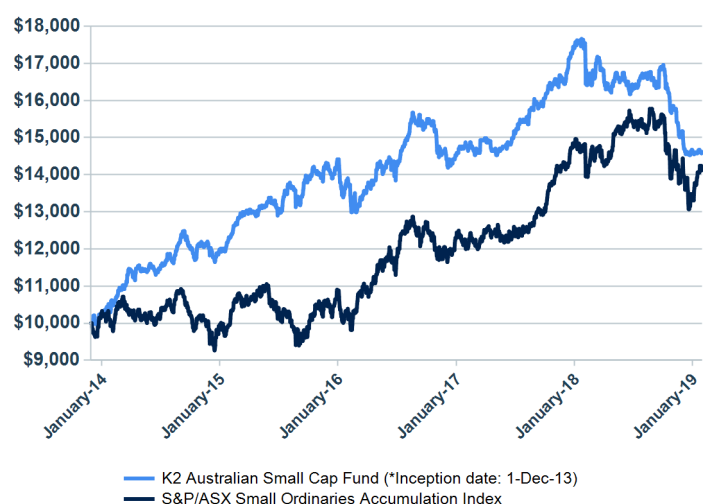
# K2 Australian Small Cap Fund (Hedge Fund)

## 31 January 2019



	1 Month	3 Months	1 Year	3 Years (%pa)	5 Years (%pa)	Inception (%pa)	Inception Date
Performance (Net of Fees)	-0.4%	-7.7%	-16.0%	1.8%	6.6%	7.6%	1-Dec-2013
Average Net Exposure	30.9%	39.1%	68.5%	77.9%	77.1%	76.6%	

### Growth of \$10,000



Top 5 Stock Holdings	Current	Monthly Move
Elanor Investor Group	3.8%	-0.2%
Healthia Ltd	3.3%	+0.2%
Cedar Woods Properties Ltd	3.1%	-0.1%
Metlifecare Ltd	2.9%	+0.3%
Pioneer Credit Ltd	2.8%	+0.2%

Month End Exposures	Current	Monthly Move
Consumer	5.9%	+0.4%
Financials	13.1%	-0.2%
Health Care	7.2%	+0.3%
Industrials	5.2%	+1.2%
Information Technology	0.8%	-0.4%
Materials	2.0%	-0.1%
Real Estate	3.1%	-0.1%
Utilities	0.7%	+0.0%
SHORTS	-4.6%	+1.8%
Number of Positions	30	+1
Gross Equity Exposure	42.6%	-0.7%
Cash Weighting	66.5%	-2.9%
Net Equity Exposure	33.5%	+2.9%

### Commentary

The K2 Australian Small Cap Fund returned -0.4% for the month of January while the ASX Small Ordinaries Accumulation Index returned 5.6%.

The Fund ended the month with 34% net equity exposure, up slightly (+3%) from the previous month. Consumer Staples and Financials are the largest sector exposures, while Consumer Cyclical, Utilities and Telcos have only a very small representation.

The Small Cap Index experienced a broad based rally to start the new year, delivering its best January return since 2012, with more than 10% of companies returning greater than 15% for the month. Healthia Ltd was a positive contributor to the Fund's performance and remains well placed to deliver strong returns from the healthcare space. Janison Group was the largest detractor for the Fund after a disappointing investor update. Janison is in ramp up mode as it looks to capitalise on its competitive position in online education and, despite recent news flow, investors should start to see the benefits from recent investment over the next 12 months.

As we enter reporting season, we remain cautious on the outlook for Australian Small Cap companies. Economic data and company earnings updates continue to show difficult operating conditions, particularly for those companies linked to housing and the consumer. During the month, Costa Group had a disappointing earnings update due to subdued demand across a number of their categories, Wesfarmers also called out softer trading conditions for Kmart and Target, while multiple companies in the construction industry disappointed investors with weaker than expected profits. Furthermore, with a Federal election on the horizon and negative implications from policy uncertainty, we expect the difficult trading conditions to continue for some time yet. While we understand that markets are forward looking, we do not think valuations fully reflect the earnings risk.

Fund Characteristics	
FUM	AUD \$24m
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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