

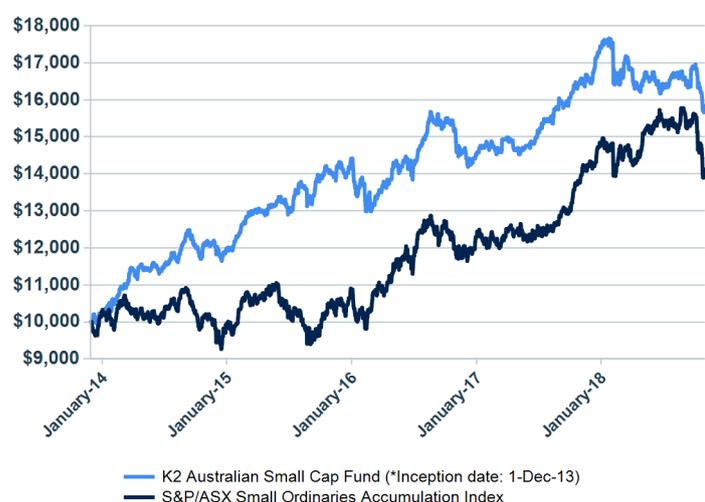
K2 Australian Small Cap Fund (Hedge Fund)

31 October 2018



	1 Month	3 Months	1 Year	3 Years (%pa)	Inception (%pa)	Inception Date
Performance (Net of Fees)	-6.3%	-5.3%	-4.1%	4.0%	9.8%	1-Dec-2013
Average Net Exposure	69.2%	71.7%	80.6%	82.1%	78.5%	

Growth of \$10,000



Top 5 Stock Holdings	Current	Monthly Move
Metlifecare Ltd	4.8%	-0.3%
Elanor Investor Group	3.9%	+0.8%
Healthia Ltd	3.6%	+0.0%
Cedar Woods Properties Ltd	3.1%	-0.1%
Axesstoday Ltd	3.1%	+0.1%

Month End Exposures	Current	Monthly Move
Consumer	10.4%	-1.4%
Energy	2.6%	-0.2%
Financials	15.7%	-1.5%
Health Care	15.3%	-4.8%
Industrials	10.0%	+1.0%
Information Technology	2.6%	-2.0%
Materials	2.9%	-1.9%
Real Estate	4.0%	-2.0%
Utilities	1.3%	-0.1%
SHORTS	-3.6%	+0.2%
Number of Positions	43	-10
Gross Equity Exposure	68.4%	-13.1%
Cash Weighting	38.8%	+12.7%
Net Equity Exposure	61.2%	-12.7%

Commentary

The K2 Australian Small Cap Fund returned -6.3% while the ASX Small Ordinaries Accumulation Index returned -9.6%.

The Small Cap Index suffered its worst monthly decline since May 2012, with almost a third of the index constituents down over 15% for the month. Many of the "market darling" technology companies have given up all their recent gains, and in some cases more. Notable monthly moves include; Kogan -50%, Appen Ltd -25%, Afterpay -28% and Wistech -25%.

In a market with few bright spots, Medical Developments Limited rallied over 15% after signing a significant distribution deal with Daiichi Sankyo, a major Japanese pharmaceutical company. The deal involves Daiichi making an upfront payment of AUD21m with additional milestone payments of AUD25m for the distribution rights to Pentrox in China. Since the start of 2018, 26 additional countries have received regulatory approval for Pentrox, taking the total number of approved countries to 38 as its globalisation gathers momentum. This is number is expected to grow to over 70 countries by 2020.

Ongoing regulatory uncertainty continues to overhang Australia and impacted some of our holdings in the portfolio during the month. The recently announced Royal Commission into the Aged Care sector prompted a large de-rate across our holdings in Regis Healthcare and Japara Health. While the prospect of an enquiry into consumer financing sector impacted on the performance of Money3 and Pioneer Credit.

The Fund ended the month with 61% net equity exposure, which was down 13% from the previous month. The Fund exited our longstanding position in Updater and also exited holdings within the Aged Care sector.

Fund Characteristics	
FUM	AUD \$25m
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 stocks
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% p.a. of the amount by which the NAV exceeds the High Water Mark once the fund achieves its hurdle.

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