

K2 Australian Small Cap Fund (Hedge Fund)

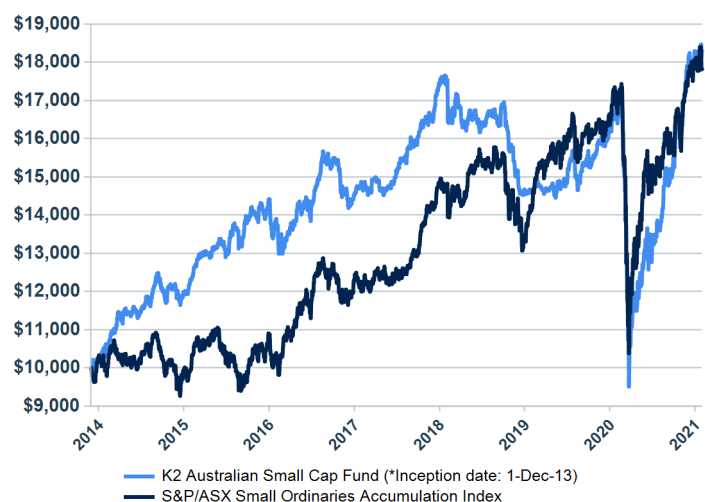
31 January 2021



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 | Inception (%pa) | Inception Date |
|---------------------------|---------|-----------------|----------------|
| Performance (Net of Fees) | 0.8% | 8.8% | 1-Dec-2013 |
| Average Net Exposure | 96.2% | 76.0% | |

Growth of \$10,000



| Top 5 Stock Holdings | Current | Monthly Move |
|------------------------------|---------|--------------|
| Summerset Group Holdings Ltd | 8.3% | +0.0% |
| Pendal Group Ltd | 6.8% | -0.2% |
| People Infrastructure Ltd | 6.3% | -0.2% |
| Kina Securities Ltd | 5.8% | +0.8% |
| Cedar Woods Properties Ltd | 5.3% | +0.7% |

| Month End Exposures | Current | Monthly Move |
|------------------------|---------|--------------|
| Communication Services | 2.1% | +2.1% |
| Consumer | 8.1% | -1.8% |
| Financials | 27.2% | +1.8% |
| Health Care | 13.2% | -1.4% |
| Industrials | 18.6% | -6.1% |
| Information Technology | 1.6% | +1.0% |
| Materials | 4.9% | +0.0% |
| Real Estate | 18.3% | +1.2% |
| Number of Positions | 42 | -1 |
| Gross Equity Exposure | 94.1% | -3.2% |
| Cash Weighting | 5.9% | +3.2% |
| Net Equity Exposure | 94.1% | -3.2% |

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Commentary

The K2 Small Cap Fund returned +0.8% for the month to be +1.1% ahead of the benchmark (BM). The fund has now returned +40.1% this financial year, well ahead of BM by + 20.1%. Since the March lows the fund is up a very strong +92.5%. The combination of good stock selection and investing cash early in the recovery have contributed to the strong performance vs benchmark since the severe March correction.

Equity markets around the world endured a bout of selling pressure during the last few days of the month. Some selective over-crowded short positions were squeezed during the month and this led to concerns over the collateral positions for a few over-gear hedge funds. In addition, the interbank repo rate in China rose nearly 3% and this helped contribute to the subsequent spike in the VIX late in the month as market participants reigned in risk positions. The US reporting season should continue to provide a positive undertow over the coming few weeks and the Australian profit season will most likely deliver to the upside. That said, we have been surprised by the lack of confidence in the virtues of the Australian economy. Over the year ahead the consensus forecast for GDP growth from the Australian economy is meaningfully lower than developed peers like Canada, the UK, and New Zealand. This seems at odds to the recent strength in commodity prices, the improved state of the Australian housing market and the success of the Job-keeper package. We believe that the Australian economy is well positioned to outperform peer nations this year as should profits from ASX listed companies. The Reserve Bank of Australia (RBA) is effectively underwriting this backdrop with a strong commitment to hold interest rates at minimal levels for the foreseeable future.

The best performing holdings for the Fund this month were Kina Securities (KSL), Pentanet (5GG) and Cedar Woods Properties (CWP) which rose 13%, 136% and 12% respectively. KSL is PNG's leading financial services company. During the month KSL agreed to acquire Westpac's Pacific operations which will be highly EPS accretive. Pentanet, a telecommunications service provider who have built a large fixed wireless network across metropolitan Perth, listed during the month. The company's 5G Terragraph technology increases broadband speeds by up to 10x that of the NBN and should ensure that Pentanet improves its level of market penetration. CWP is a property developer with an established landbank in WA, VIC, QLD and SA and is extremely well positioned to deliver growth over the years ahead.

The Fund's net exposure for the month averaged 96.2%. The median holding for the Fund has attractive characteristics; using consensus forecasts for the year ahead the PE is 15.8x, ROE is 14.1%, and the dividend yield is 3.4%. The market capitalisation of the median holding for the Fund is \$670 million and EPS growth is expected to be +13.3% over the next 12 months.

Fund Characteristics

| | |
|--------------------|---|
| FUM | AUD \$10m |
| 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 |

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 | 3.3 | -0.1 | 2.7 | 1.0 | 2.6 | -8.0 | -28.0 | 11.4 | 6.8 | -0.2 | -12.1 | -5.7 | 26.6% | -1.3% |
| 2020/21 | 4.8 | 11.3 | 1.4 | 3.2 | 12.1 | 1.6 | 0.8 | | | | | | 40.1 | 20.0 | 6.3% | -0.4% |
| Incept | | | | | | | | | | | | | 83.0 | 78.2 | | |
| Incept | | | | | | | | | | | | | 8.8%pa | 8.4%pa | 24.0% | -1.0% |

(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.