

# K2 Australian Small Cap Fund (Hedge Fund)

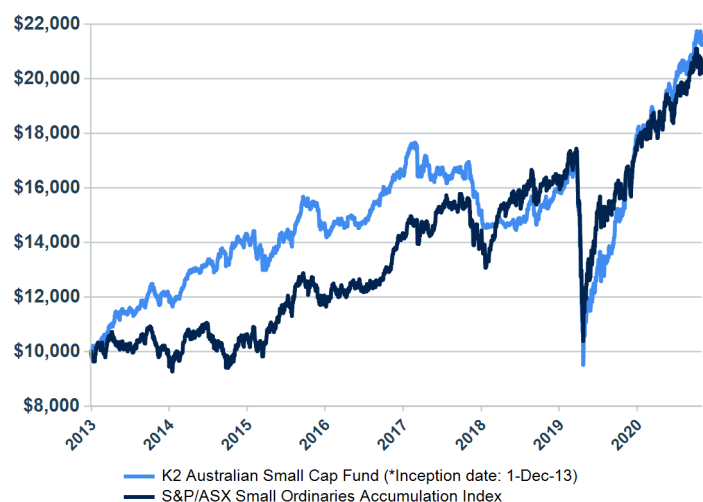
## 30 September 2021



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	3 Months	6 Months	1 Year	5 Years (%pa)	Inception (%pa)
Performance (Net of Fees)	0.19%	3.90%	15.49%	39.06%	6.90%	10.25%

### Growth of \$10,000



### Commentary

The K2 Small Cap Fund returned +0.19% for the month and has delivered strong returns over the past year to be up +39.06% outperforming the benchmark (BM) by +2.29% and +8.64% respectively. The fund continues to perform well and exhibits some defensive characteristics when markets are volatile, particularly since the severe March 2020 pandemic induced correction. Pleasingly, the fund has delivered an above BM and consistent 10.25% p.a. return (after all fees) since inception without excess market volatility.

During the month economists reduced next years' GDP growth estimate for Australia by 0.2% thus bringing the aggregate downgrade to 0.6% for the quarter. This is hardly surprising given that 57% of Australian's adult population reside in NSW and Victoria and both states are largely in COVID-19 lockdowns. However, we believe that over the coming months significant economic activity will be released as movement liberations evolve. Australia's saving rate is elevated at present and this should provide households with meaningful spending power next year. Business confidence has contracted over the past few months and is now as low as it was back during the GFC. We would expect business leaders to regain their courage by year end and we envisage that a new cycle of growth capital expenditure is forming. The Fund currently has 65% exposure to financials, industrials and discretionary retailers; these are typically the more economically cyclical segments of the market. We are mindful that regulators are concerned about emerging risks in the housing market. Loan serviceability thresholds have been increased but we are comforted by the fact that Australia's household debt to income has been stable for 5 years. It is also worth noting that Australia's household interest payments as a share of income is now at its lowest level in over 30 years.

The best performing holdings for the Fund this month were MAAS Group (MGH), Best & Less Group (BST) and Calix (CXL) which rose 24%, 23% and 35% respectively. MGH continues to expand its regional footprint with a series of smaller acquisitions during the month. BST is a retailer that offers a compelling value proposition through its network of 245 stores. It has captured just 2% of the Australian apparel market and has strong growth aspirations. At 9x earnings we believe that BST is attractively priced. CXL provides technology solutions that address global sustainability challenges. During the month CXL received capital support from a leading de-carbonisation investor.

The Fund's net exposure for the month averaged 92.3%. The median holding for the Fund is attractively priced; using consensus forecasts for the year ahead the PE is 14.7x and the ROE is 13.3%. The market capitalisation of the median holding for the Fund is \$850 million.

Top 5 Stock Holdings	Current	Monthly Move
Summerset Group Holdings Ltd	7.0%	-0.4%
Pendal Group Ltd	6.2%	-0.7%
MA Financial Group Ltd	5.5%	-1.6%
Maas Group Holdings Ltd	4.8%	+0.1%
People Infrastructure Ltd	4.5%	+0.6%

Month End Exposures	Current	Monthly Move
Communication Services	1.6%	0.0%
Consumer	21.4%	-2.0%
Energy	0.9%	+0.1%
Financials	28.5%	-1.7%
Health Care	11.9%	+1.2%
Industrials/Real Estate	24.0%	+0.2%
Information Technology	0.8%	0.0%
Materials	3.2%	+0.9%
Number of Positions	42	+1
Gross Equity Exposure	92.3%	-1.3%
Cash Weighting	7.7%	+1.3%
Net Equity Exposure	92.3%	-1.3%

**George Boubouras**  
Head of Research  
research@k2am.com.au  
03 9691 6111

**Marcela Tirado**  
Client Services  
invest@k2am.com.au  
03 9691 6111

### Fund Characteristics

FUM	AUD \$16m
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						2.86	3.19	3.06	4.44	0.36	1.15	-1.26	14.52	1.12	41.95%	0.00%	
2014/15	3.64	2.57	-0.68	0.50	-1.04	-0.37	2.60	4.48	1.37	-0.22	2.23	-2.11	13.51	0.44	22.50%	0.00%	
2015/16	5.71	-2.77	3.61	1.57	1.31	1.20	-3.95	-5.76	4.80	3.33	1.21	-0.40	9.58	14.40	12.48%	-0.20%	
2016/17	4.80	3.05	0.00	-1.48	-3.76	-0.39	1.57	-1.54	3.14	-2.28	0.78	2.80	6.50	7.01	15.89%	-0.54%	
2017/18	2.08	3.58	0.05	2.86	-0.23	5.91	-0.28	-3.36	0.04	-2.06	1.65	-1.87	8.29	24.25	21.35%	-2.04%	
2018/19	1.82	-0.96	2.06	-6.33	-4.24	-3.25	-0.36	1.48	-1.08	1.04	0.31	-0.08	-9.53	1.92	44.79%	-3.92%	
2019/20	5.21	-3.19	3.27	-0.11	2.71	1.01	2.56	-8.00	-28.03	11.37	6.81	-0.18	-12.11	-5.67	26.59%	-1.28%	
2020/21	4.81	11.25	1.40	3.21	12.13	1.58	0.80	-1.11	2.75	6.18	1.08	3.57	58.25	33.23	5.98%	-0.23%	
2021/22	-1.03	4.78	0.19										3.90	3.44	8.00%	-0.03%	
													Incept.	114.75	104.69		
													Incept.	10.25%pa	9.58%pa	22.17%	-0.92%

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

DISCLAIMER: The K2 Australian Small Cap Fund is issued by K2 Asset Management Limited (K2) ABN 95 085 445 094, AFS Licence No 244393, a wholly owned subsidiary of K2 Asset Management Holdings Limited. The information contained in this document is produced in good faith and 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. The information provided in this document is current at the time of the preparation and K2 is not obliged to update the information. 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. Please note that past performance is not a reliable indicator of future performance. Any advice and information contained in this document is general only and has been prepared without taking into account any particular circumstances and needs of any party. Before acting on any advice or information in this document you should assess and seek advice on whether it is appropriate for your needs, financial situation, and investment objectives. Investment decisions should not be made upon the basis of its past performance or distribution rate, or any rating given by a ratings agency, since each of these can vary. In addition, ratings need to be understood in the context of the full report issued by the ratings agency themselves. A product disclosure statement or information memorandum for the funds referred to in this document can be obtained at [www.k2am.com](http://www.k2am.com) or by contacting K2. You should consider the product disclosure statement before making a decision to acquire an interest in the fund.

©2021 Morningstar, Inc. All Rights Reserved. The information contained herein: (1) is proprietary to Morningstar and/or its content providers; (2) may not be copied or distributed; and (3) is not warranted to be accurate, complete, or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information. Past performance is no guarantee of future results.