

# K2 Australian Small Cap Fund (Hedge Fund)

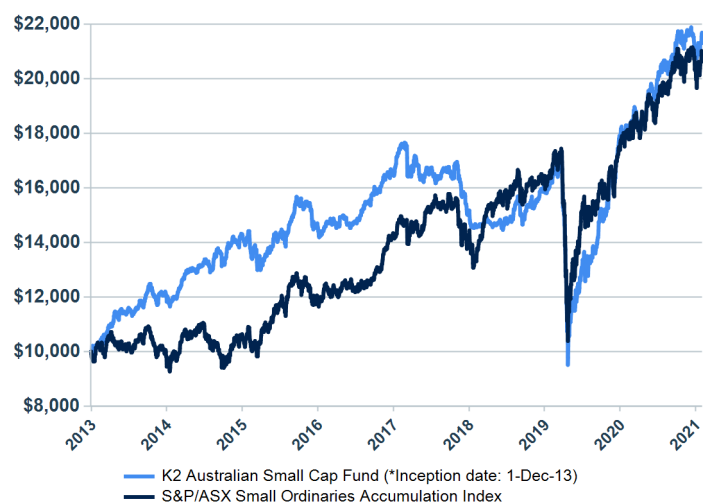
## 31 December 2021



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)	2.31%	1.01%	4.94%	19.48%	8.35%	10.05%

### Growth of \$10,000



Top 5 Stock Holdings	Current	Monthly Move
MA Financial Group Ltd	6.5%	-0.1%
Summerset Group Holdings Ltd	6.2%	+0.3%
Maas Group Holdings Ltd	6.0%	-0.1%
Peoplein Ltd	5.0%	+0.3%
Winton Land Ltd	4.7%	+4.7%

Month End Exposures	Current	Monthly Move
Communication Services	1.5%	0.0%
Consumer	24.9%	+0.7%
Energy	1.0%	0.0%
Financials	22.3%	-0.7%
Health Care	12.1%	+0.7%
Industrials/Real Estate	31.2%	+5.3%
Information Technology	1.4%	+0.6%
Materials	3.1%	+0.1%
Number of Positions	44	+3
Gross Equity Exposure	97.5%	+6.6%
Cash Weighting	2.5%	-6.6%
Net Equity Exposure	97.5%	+6.6%

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

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

### Commentary

The K2 Australian Small Cap Fund returned 2.31% for the month.

The Reserve Bank of Australia (RBA) is taking a pragmatic approach to monetary and banking policy. The RBA has made it quite clear that it does not target housing prices. In addition, the RBA has consistently stated that there is little chance that it will need to lift interest rates in 2022. Given that Australian households are now sitting on more than \$200 billion of cash, we would expect to see economic activity tilt towards the services sector over the year ahead. This would be jobs accretive and should ensure that the Australian economy delivers more than 4% GDP growth in 2022. We are optimistic about the EPS growth projections for Australian equities over the coming year and share prices should at least match the improved level of profitability. This will be important as we feel that the cheap beta cycle that has been with us for the past decade is starting to fade. We believe that Quantitative Easing (QE) has served its purpose in reviving risk taking activities. However, it has enabled a large congregation of market participants who are ultimately momentum chasers. As QE inevitably transitions towards Quantitative Tightening (QT), prospective investment returns will require a greater appreciation of the interaction between valuation and growth.

The best performing holdings for the Fund this month were Best & Less Group Holdings (BST), Summerset Group Holdings (SUM) and Healthia (HLA) which rose 28%, 8% and 11% respectively. BST continues to be well placed to benefit from a more active customer base in 2022. BST's share price has almost doubled since its IPO 6 months ago, but valuations continue to look appealing. SUM will report its 4Q sales of occupancy rights shortly. Despite the 107 day Auckland lockdown, we would expect to see an improvement in both re-sales and new sales. Over the past 6 months HLA has made a number of bolt-on acquisitions that should ensure that annualised revenue grows by 50% over the coming year. HLA trades on 11x EV to EBITDA yet it has been paying about 6x for these recent acquisitions.

The Fund's net exposure for the month averaged 94.4%. The median holding for the Fund is attractively priced; using consensus forecasts for the year ahead the PE is 14.5x, the ROE is 13.4% and the dividend yield is 4.1%. The market capitalisation of the median holding for the Fund is \$736 million. The Fund's positioning can best be described as quality growth at an attractive price.

### 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	0.75	-2.02	2.31							4.94	5.54	7.05%	-0.02%	
													Incept.	116.91	108.85		
													Incept.	10.05%pa	9.54%pa	22.07%	-0.91%

(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.

©2022 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.