

K2 Australian Small Cap Fund (Hedge Fund)

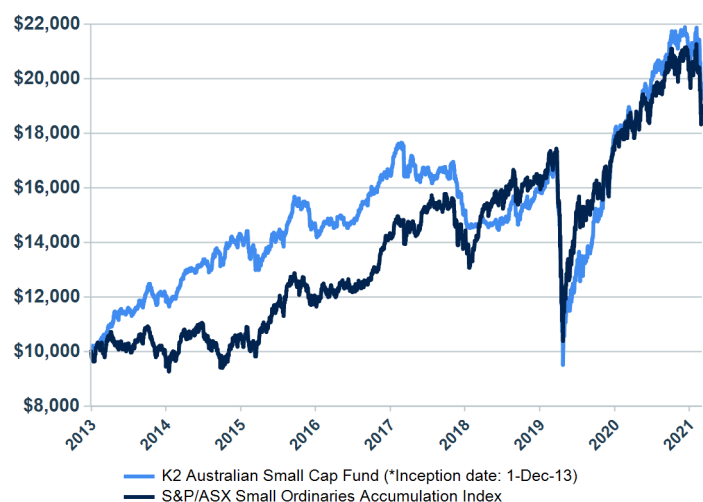
31 January 2022



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)	-8.61%	-8.38%	-3.09%	8.32%	6.08%	8.74%

Growth of \$10,000



Commentary

The K2 Small Cap Fund returned -8.61% for the month of January which was +0.40% ahead of the index in a volatile month. The fund has delivered +8.32% return over the past year, outperforming the benchmark by +1.7%. The fund has delivered +8.74% p.a. return (after all fees) since inception.

Global equity markets were incredibly volatile during the month. Market participants reacted nervously to minutes from the US Federal Reserve's (FED) meeting in December 2021. Broadly the FED explained that the Omicron variant had caused its baseline economic activity projections to be skewed to the downside whereas its inflation projections were skewed to the upside. The FED also disclosed that it had begun discussions about the appropriate conditions and timing for the commencement of the balance sheet run off. Almost all members of the FED concluded that the balance sheet run-off should be initiated after the first increase in the federal funds rate. Three weeks later the FED announced, given inflation was well above 2% and the labour market was strong, it would soon be appropriate to raise rates. Market participants have rapidly priced in 4 rate hikes by the FED this year and equity prices around the world experienced a sharp retraction. The Reserve Bank of Australia (RBA) is taking a more patient approach to monetary policy than the FED. Australia has demonstrated that it has an advantageous inflationary setting and as a result CPI forecasts for the year ahead are 2% lower than the US. This means that the RBA can allow the economy to expand without the immediate risk of breaching 3% wage growth. We envisage that the Australian economy will be one of the best performers this year which should support corporate profits and equity market values.

The best performing holdings for the Fund this month were Karoon Energy (KAR), Pental Group (PDL) and MA Financial Group (MAF) which all delivered positive returns. KAR's performance was assisted by a 20% a surge in price of crude oil. The Fund sold out of PDL before the release of the weak December quarter FUM statement. MAF upgraded CY2021 earnings guidance for the third time in 3 months. The Fund halved the MAF position mid-month.

The Fund's net exposure for the month averaged 95.7%. The median holding for the Fund is attractively priced; using consensus forecasts for the year ahead the PE is 16.9x, the ROE is 12.4% and the dividend yield is 3.5%. The market capitalisation of the median holding for the Fund is \$645 million. The Fund's positioning can best be described as quality growth at an attractive price.

Top 5 Stock Holdings	Current	Monthly Move
Summerset Group Holdings Ltd	7.4%	+1.2%
Seven Group Holdings Ltd	5.8%	+1.2%
Maas Group Holdings Ltd	5.7%	-0.3%
Peoplein Ltd	5.2%	+0.2%
Pinnacle Investment Managememe	5.1%	+2.6%

Month End Exposures	Current	Monthly Move
Communication Services	1.3%	-0.2%
Consumer	25.2%	+0.3%
Energy	1.2%	+0.3%
Financials	19.6%	-2.6%
Health Care	13.1%	+0.9%
Industrials/Real Estate	30.7%	-0.6%
Information Technology	0.9%	-0.5%
Materials	2.9%	-0.2%
Number of Positions	41	-3
Gross Equity Exposure	94.8%	-2.7%
Cash Weighting	5.2%	+2.7%
Net Equity Exposure	94.8%	-2.7%

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Fund Characteristics

FUM	AUD \$14m
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	5.99%	-0.23%
2021/22	-1.03	4.78	0.19	0.75	-2.02	2.31	-8.61						-4.10	-3.96	6.66%	-0.01%
												Incept.	98.23	90.06		
												Incept.	8.74%pa	8.18%pa	22.02%	-0.91%

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

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