

K2 Australian Small Cap Fund (Hedge Fund)

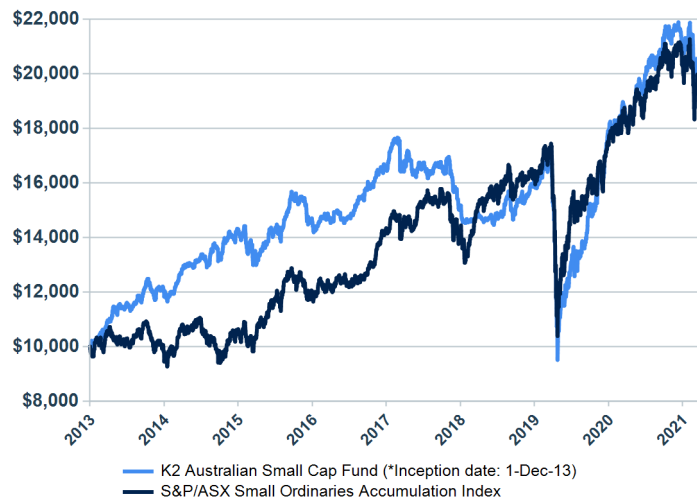
28 February 2022



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)	-1.08%	-7.50%	-8.51%	8.36%	6.18%	8.51%

Growth of \$10,000



Commentary

The K2 Australian Small Cap Fund returned -1.08% for the month. The Fund has returned +8.4% over the past year which is +3.4% ahead of the index (net, after fees).

Global equity markets were again volatile during the month. The CBOE Volatility Index (VIX) averaged 26 for the month and this compares to the average over the last decade of 16. During the first 2 weeks of the month market participants were squarely focussed on how many interest rate hikes the US Federal Reserve (FED) would implement in 2022. It peaked at 8. However, attention quickly shifted as Russia invaded Ukraine. By month end the consensus view was that the FED would be less hawkish and 5 rates would eventuate in 2022. Russia's hostile actions towards the Ukraine has led to swift responses from many of the NATO members. Wide-ranging sanctions have been actioned and Russia's access to global capital has been severely constrained. The iShares MSCI Russia ETF in USD collapsed by 54% during the month and may create collateral damage. Russia's invasion of the Ukraine is complicated by its position as a key commodity exporter; a barrel of crude oil and the CRB Food Index both rose nearly 10% during the month adding to an already highly complex economic backdrop. War times are extremely difficult phases; human loss is always tragic but market outcomes often defy emotional instincts. Whether we agree with it or not, the fact remains that equity prices have historically rallied on the commencement of war time hostilities. We have already conditioned ourselves to a 1%+ higher weighted average cost of capital (WACC) for Australian equities. Despite this we are still finding a significant number of compelling investment opportunities. The Fund remains optimistically positioned.

The best performing holdings for the Fund this month were PWR Holdings (PWH), Kina Securities (KSL) and Auswide Bank (ABA) which rose 11%, 7% and 6% respectively. PWH delivered a very strong 1H result; revenue rose 22%, EPS grew by 14% and the ROE was 26.8%. If the world is moving towards a tightening monetary policy phase, then both KSL and ABA are well positioned to deliver better levels of profitability. Both companies are already trading on low PE multiples with attractive dividend yields. We would expect KSL and ABA to deliver better ROE's over the coming year.

The Fund's net exposure for the month averaged 92.6%. The median holding for the Fund is attractively priced; using consensus forecasts for the year ahead the PE is 16.1x, the ROE is 12.6% and the dividend yield is 3.6%. The market capitalisation of the median holding for the Fund is \$936 million.

Top 5 Stock Holdings	Current	Monthly Move
Summerset Group Holdings Ltd	7.8%	+0.4%
Seven Group Holdings Ltd	6.1%	+0.2%
Maas Group Holdings Ltd	5.9%	+0.3%
Peoplein Ltd	5.3%	+0.2%
Winton Land Ltd	4.9%	-0.1%

Month End Exposures	Current	Monthly Move
Consumer	26.6%	+1.4%
Energy	1.3%	+0.1%
Financials	13.0%	-6.6%
Health Care	13.4%	+0.3%
Industrials/Real Estate	31.5%	+0.8%
Information Technology	1.8%	+0.9%
Materials	3.2%	+0.3%
Number of Positions	36	-5
Gross Equity Exposure	90.7%	-4.1%
Cash Weighting	9.3%	+4.1%
Net Equity Exposure	90.7%	-4.1%

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Fund Characteristics

FUM	AUD \$14m
Portfolio Managers	Campbell Neal, David Poppenbeek and Bill Laister
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	-1.08					-5.13	-3.96	6.75%	-0.01%
												Incept.	96.10	90.05		
												Incept.	8.51%pa	8.09%pa	22.03%	-0.91%

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

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