

K2 Australian Small Cap Fund (Hedge Fund)

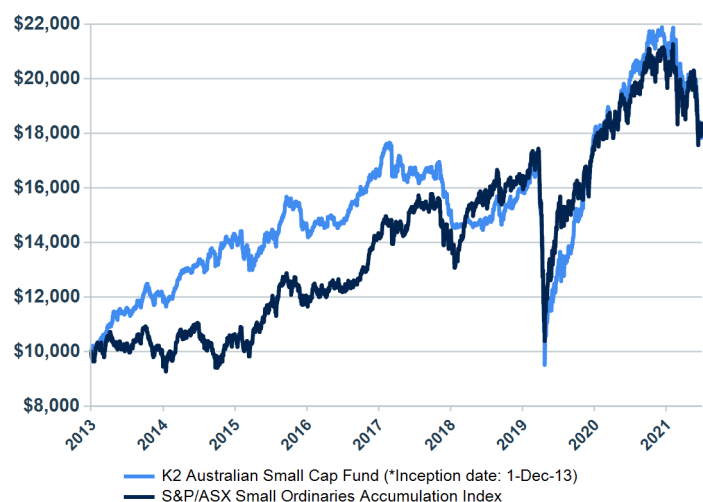
31 May 2022



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)	-9.08%	-7.60%	-14.54%	-9.21%	4.19%	7.24%

Growth of \$10,000



Commentary

The K2 Australian Small Cap Fund returned -9.08% for the month.

During the month a number of central banks lifted their official cash rate. Most central bankers appear to be placing significant weight on survey results that amplify the difficulties in finding labour. However, to our mind, the tightness in labour markets could be on the verge of becoming a lagging indicator; the persistent poor performance of share prices, the contraction in business confidence and the flattening yield curve is probably suggesting that job openings could be on the cusp of a meaningful down turn. By way of example, over the past six months, the value of the average US listed software company has declined by 30%. Given this dramatic move, it is reasonable to assume that the demand for software engineers should taper. This is why central bankers closely monitor financial conditions; sharp downward moves in asset prices can allow central banks to be less hawkish in their application of monetary policy.

Earlier this year, the RBA indicated that Australia has had an advantageous inflationary bearing thanks to multi-year enterprise wage agreements, a strong corporate cost culture and a more balanced supply of domestic energy. However, it would appear that the RBA's business liaison program has identified a softening in the cost culture. In addition, energy supply constraints have led to elevated wholesale electricity and gas prices. As a result, inflation is emerging quicker than the RBA expected. Coincidentally, the Australian Labour Party (ALP) won the recent election. The ALP campaign was focussed on climate action, real wages and employment opportunities. The ALP believes that a 5% increase in the minimum wage is needed, and that renewable energy can create jobs, reduced emissions and provide a cheaper source of power. It will be interesting to see how the Reserve Bank of Australia (RBA) interprets the ALP's strategies.

The best performing holdings for the Fund this month were Stanmore Resources (SMR) and Judo Capital (JDO) which rose 13% and 4% respectively. SMR's metallurgical coal assets are leveraged to actions to stimulate China's economy; demand is improving, and supply is tight. JDO continues to grow its business loan book by 4% per half and margins will improve as the cash rate rises. PWR Holdings (PWH) was the largest detractor for the month declining 23%. The weakness reflected a general move away from companies with relatively high PE ratios; PWR trades on 28x next years' earnings.

Top 5 Stock Holdings	Current	Monthly Move
Summerset Group Holdings Ltd	7.6%	-0.1%
Maas Group Holdings Ltd	6.6%	0.0%
Seven Group Holdings Ltd	5.7%	+0.2%
Judo Capital Holdings Ltd	5.1%	+0.7%
Peoplein Ltd	4.6%	-0.3%

Month End Exposures	Current	Monthly Move
Communication Services	1.0%	+0.5%
Consumer	12.3%	-5.2%
Energy	5.4%	+0.9%
Financials	17.9%	+2.6%
Health Care	11.7%	-0.6%
Industrials/Real Estate	32.2%	+0.7%
Materials	4.4%	-5.4%
Number of Positions	29	-6
Gross Equity Exposure	84.9%	-8.3%
Cash Weighting	15.1%	+8.3%
Net Equity Exposure	84.9%	-8.3%

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Fund Characteristics

FUM	AUD \$13m
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	15.90%	-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	2.50	-0.86	-9.08		-12.34	-7.40	7.44%	-0.01%
												Incept.	81.19	83.24		
												Incept.	7.24%pa	7.38%pa	22.11%	-0.91%

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

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