

# K2 Australian Small Cap Fund (Hedge Fund)

## 30 November 2022

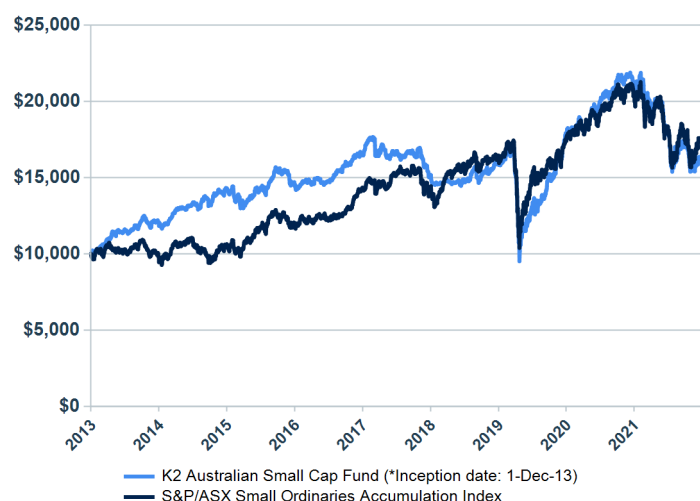


The K2 Australian Small Cap Fund is an Absolute Return equities fund. The fund is index-unaware, aiming to produce positive absolute returns over the long term with a capital preservation mindset. The Fund's mandate allows it to actively manage its net market exposure – utilising both cash and shorts to help protect clients' capital.

	1 Month	Unit Price	Inception (%pa)
Performance (Net of Fees)	3.94%	2.32	5.77%

Refer below detailed performance data matrix

### Growth of \$10,000



Top 5 Stock Holdings	Current	Monthly Move
Seven Group Holdings Ltd	7.1%	-0.2%
Summerset Group Holdings Ltd	6.7%	-0.3%
Peoplein Ltd	6.0%	-0.2%
Abacus Property Group	4.2%	-0.2%
Stanmore Resources Ltd	3.9%	-0.3%

Market Capitalisation Coverage	Current	Monthly Move
Large Caps >=AUD\$7.5b	7.1%	+7.1%
Mid Caps >=AUD\$2b < AUD\$7.5b	36.2%	-1.5%
Small Caps < AUD\$2b	50.3%	-5.8%

Month End Exposures	Current	Monthly Move
Communication Services	3.0%	+0.0%
Consumer	13.2%	+3.1%
Energy	8.2%	-0.4%
Financials	14.1%	-5.8%
Health Care	10.2%	-1.0%
Industrials/Real Estate	30.4%	-1.7%
Materials	14.8%	+5.5%
Number of Positions	31	0
Gross Equity Exposure	94.1%	-1.2%
Cash Weighting	5.9%	-0.8%
Net Equity Exposure	94.1%	+0.8%

### Commentary

The K2 Australian Small Cap Fund returned 3.94% for the month.

During the month the Small Ordinaries Resource and Industrial indices delivered total returns of 11.6% and 2.8% respectively. The Fund has more than 20% exposure to resource companies and this has doubled over the past few months. We anticipate that resource companies will continue to deliver strong returns well into 2023. The Fund's resource exposure should benefit from a global trend where commodity producers have generally spent years preserving capital. As a result, the supply of a number of commodities has been constrained. China's eventual roll-back in its zero-COVID policy may be the catalyst that drives commodity demand beyond supply thus leading to upward pressure on prices. Industrial companies should also continue to perform well. The Australian economy could be one of the strongest performers in the developed world over the coming year. The Reserve Bank of Australia (RBA) is less willing to subject the country to unnecessary pain; a self-sustaining economy seems to take precedence ahead of near term inflation readings. Our industrial exposure is directed towards companies that have operational tail winds and are coupled with attractive valuation metrics.

In November, the Reserve Bank of New Zealand (RBNZ) delivered an early Christmas gift to the country's borrowers; the highest cash rate in the developed world. Despite the fact that other central banks are embracing a more moderate pace of rate rises, the RBNZ actually considered accelerating its speed of rate hikes. The RBNZ appears to have a myopic view that inflation expectations are destined to spiral higher and that a recession is the only solution. To our mind, the RBNZ has historically demonstrated limited capacity in anticipating inflationary trends. Hence, we have had the Fund positioned for a more lenient approach to monetary policy. This year the Fund has averaged around 10% exposure to New Zealand based companies. It is likely that the RBNZ will be the first central bank to cut rates in 2023 and this should result in strong performance from the Fund's New Zealand holdings.

The best performing holdings for the Fund this month were Bellevue Gold (BGL), Seven Group Holdings (SVW) and Judo Capital (JDO) which rose 48%, 14% and 18% respectively. Healthia (HLA) and Winton Land (WIN) were the largest detractors. During the month the Fund added Webjet (WEB) and Nickel Industries (NIC). MA Financial (MAF) was sold.

Fund Characteristics	
Portfolio Managers	Campbell Neal, David Poppenbeek and Bill Laister
Strategy	Australian and New Zealand Small Cap Equities
Objectives	To deliver consistent returns over the investment cycle with a focus on capital protection during periods of market declines
Return Target	S&P/ASX Small Ordinaries Accumulation Index + 3%pa
Number of Stocks	25 to 50
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
Investment Horizon	5 Years
Style Bias	Growth At a Reasonable Price
Market Capitalisation Bias	>\$1billion

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

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

## 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	-13.71	-24.36	-19.52	8.02%	-0.01%	
2022/23	9.20	1.14	-9.78	2.28	3.94								5.94	11.17	10.89%	-0.39%	
													Incept.	65.64	77.06		
													Incept.	5.77%pa	6.55%pa	21.05%	-0.86%

(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.