

K2 Australian Small Cap Fund (Hedge Fund)

31 December 2022

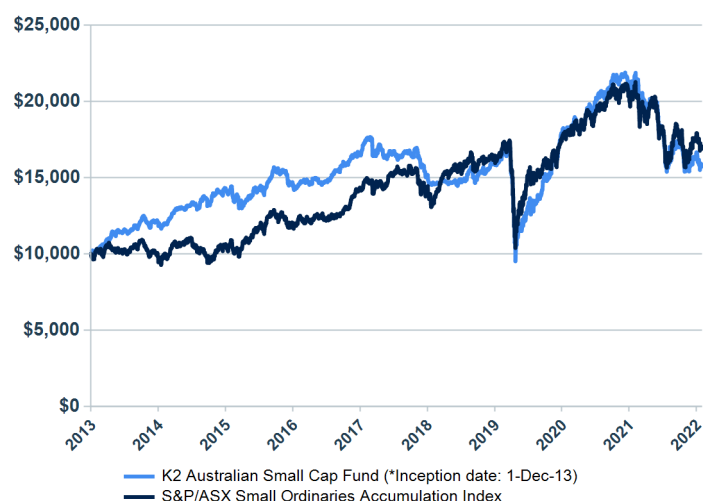


The K2 Australian Small Cap Fund is an Absolute Return equities fund. The fund is index-unaware, aiming to produce positive absolute returns over the long term with a capital preservation mindset. The Fund's mandate allows it to actively manage its net market exposure – utilising both cash and shorts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

	1 Month	Unit Price	Inception (%pa)
Performance (Net of Fees)	-4.45%	2.22	5.18%

Refer below detailed performance data matrix

Growth of \$10,000



Top 5 Stock Holdings	Current	Monthly Move
Seven Group Holdings Ltd	7.5%	+0.4%
Summerset Group Holdings Ltd	6.8%	+0.0%
Peoplein Ltd	6.2%	+0.2%
Stanmore Resources Ltd	4.5%	+0.6%
Abacus Property Group	4.2%	+0.0%

Market Capitalisation Coverage	Current	Monthly Move
Large Caps >=AUD\$7.5b	7.5%	+0.4%
Mid Caps >=AUD\$2b < AUD\$7.5b	27.5%	-8.7%
Small Caps < AUD\$2b	54.4%	+4.1%

Month End Exposures	Current	Monthly Move
Communication Services	3.1%	+0.1%
Consumer	9.2%	-4.0%
Energy	8.1%	-0.1%
Financials	12.9%	-1.2%
Health Care	9.9%	-0.3%
Industrials/Real Estate	31.1%	+0.6%
Materials	15.5%	+0.7%
Number of Positions	27	-4
Gross Equity Exposure	89.9%	-4.2%
Cash Weighting	10.1%	+4.2%
Net Equity Exposure	89.9%	-4.2%

Commentary

The K2 Australian Small Cap Fund returned -4.45% for the month.

During 2022, COVID related supply chain dislocations blended with Russia's invasion of the Ukraine to create an inflation cocktail that was difficult for the market to digest. Risk free rates and risk premiums concurrently increased resulting in lower valuation metrics for most asset classes. As we move into 2023 the inflation cocktail is starting to lose some of its potency. Supply chain bottlenecks are gradually decongesting, and this is coinciding with a reduced level of economic activity. Hence, there is less imperative for businesses to carry "just-in-case" levels of surplus inventory. The resulting downward shift in inventory levels should ensure that goods inflation continues to subside. However, the immediate inflation driver that needs to be resolved is the labour market imbalance. Despite tighter financial conditions, labour demand continues to outstrip supply. Subdued economic activity is leading to an increased number of announced job cuts, however, many businesses continue to sight hiring as a meaningful challenge. Ultimately, corporate profitability will diminish, the pace of interest rate hikes should fade, and, in time, an appetite for risk will return.

Over the past 2 years the Australian Small Resources Index has delivered a total return of +10%pa whereas the median small gold company has lost -9%pa. Gold fundamentals are improving and as a result the Fund recently acquired a position in Bellevue Gold (BGL). BGL is developing a 1.0mtpa gold mine in WA, which will be in production in the 2nd half 2023. The project will be one of the highest-grade gold mines in Australia (5.5g/t) and is aiming to produce 190-215koz in the first 3 years at a cost of about \$1,100/oz. The current spot price of gold is \$2,700/oz, so BGL will be able to generate strong margins and profitability. There are opportunities to expand production over time towards the 1.2-1.5mtpa on very low capex. The current reserve is 1.3moz, with a significant resource base to convert to reserves of over 3.0moz.

The best performance contributors for the Fund the month were Stanmore Resources (SMR), Maas Group (MGH) and Acrow Formwork and Construction Services (ACF). Winton Land (WIN NZ) and 29Metals (29M) were detractors. During the month the Fund added to its Karoon Energy (KAR) holding. PWR Holdings (PWH) was sold. The median holding for the Fund has a market capitalisation of \$1.7 billion.

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	-4.45							1.23	7.03	10.28%	-0.32%	
													Incept.	58.27	70.46		
													Incept.	5.18%pa	6.05%pa	20.98%	-0.85%

(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 or by contacting K2. You should consider the product disclosure statement before making a decision to acquire an interest in the fund.

©2023 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.