

# K2 Australian Small Cap Fund (Hedge Fund)

## 31 January 2023

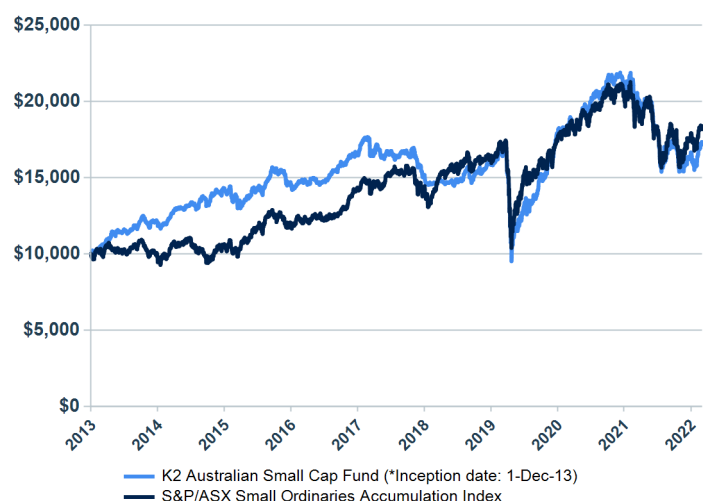


The K2 Australian Small Cap Fund is an Absolute Return equities fund. The fund is index-unaware, aiming to produce positive absolute returns over the long term with a capital preservation mindset. The Fund's mandate allows it to actively manage its net market exposure – utilising both cash and shorts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

	1 Month	Unit Price	Inception (%pa)
Performance (Net of Fees)	8.43%	2.41	6.07%

Refer below detailed performance data matrix

### Growth of \$10,000



Top 5 Stock Holdings	Current	Monthly Move
Seven Group Holdings Ltd	7.5%	+0.0%
Summerset Group Holdings Ltd	6.8%	+0.1%
Peoplein Ltd	6.0%	-0.2%
Corporate Travel Management	4.2%	+0.6%
Abacus Property Group	4.2%	-0.1%

Market Capitalisation Coverage	Current	Monthly Move
Large Caps >=AUD\$7.5b	7.5%	+0.0%
Mid Caps >=AUD\$2b < AUD\$7.5b	37.0%	+9.5%
Small Caps < AUD\$2b	50.9%	-3.5%

Month End Exposures	Current	Monthly Move
Communication Services	3.1%	0.0%
Consumer	12.4%	+3.2%
Energy	7.4%	-0.7%
Financials	12.1%	-0.8%
Health Care	10.3%	+0.4%
Industrials/Real Estate	30.8%	-0.3%
Materials	19.7%	+4.2%
SHORTS	-0.1%	-0.1%
Number of Positions	31	+4
Gross Equity Exposure	96.0%	+6.1%
Cash Weighting	4.3%	-5.8%
Net Equity Exposure	95.7%	+5.8%

### Commentary

The K2 Australian Small Cap Fund returned 8.43% for the month.

For the past 75 years Australia has measured inflation on a quarterly basis. Last year the Australian Bureau of Statistics finally moved to a monthly CPI measure. Unfortunately, the monthly CPI reading for December was 8.4% stronger than a year ago. The Reserve Bank of Australia (RBA) has been highlighting that Australian business leaders have indicated that costs of doing business have risen and that prices would need to follow. As a result, it would appear that some industries are now aggressively focussed on margin accretion to the detriment of their customers. Airlines, grocers and petrol retailers look to be the main culprits and their actions are having a meaningful impact on inflation gauges. We would prefer that business leaders counter short term input cost increases with long term productivity solutions. Supply chains have decongested, "just in case" inventories are no longer needed, and worker mobility is recommencing. Accordingly, a number of industries will increasingly be exposed to an improved level of competition and market share will ultimately cede from the complacent to the focussed. Judo Capital (JDO) is a company that typifies this opportunity.

JDO is a specialist provider of loans to Small and Medium Enterprises (SME). JDO's business model embraces a high quality level of service. Unsurprisingly the group's SME Customer Net Promoter Score (NPS) is +78 whereas the major banks are struggling to get into positive territory. Customers clearly value JDO's quality advice, its faster approval process and the quicker access to funds. This plays to another strength of JDO which is its purpose-built culture. Hence JDO is led by people who have a passion to create the most trusted SME bank in the country and the results to date amplify this. Over the past 12 months JDO has grown its loan book by more than 50%. In addition, JDO has consistently offered customers a market leading rate on their term deposits. Net interest margins could be higher but this would destabilise the longer term strategy. Hence, we believe that JDO will continue to win considerable share of the SME lending market and meaningful long term shareholder value will be created.

The best performance contributors for the Fund this month were Patriot Battery Metals (PMT), Corporate Travel Management (CTD) and Stanmore Resources (SMR). During the month the Fund acquired positions in PMT and HMC Capital (HMC).

### 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

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## 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	8.43						9.76	14.05	9.73%	-0.28%
												Incept.	71.62	81.63		
												Incept.	6.07%pa	6.73%pa	20.93%	-0.85%

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

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