

K2 Australian Small Cap Fund (Hedge Fund)

30 April 2023

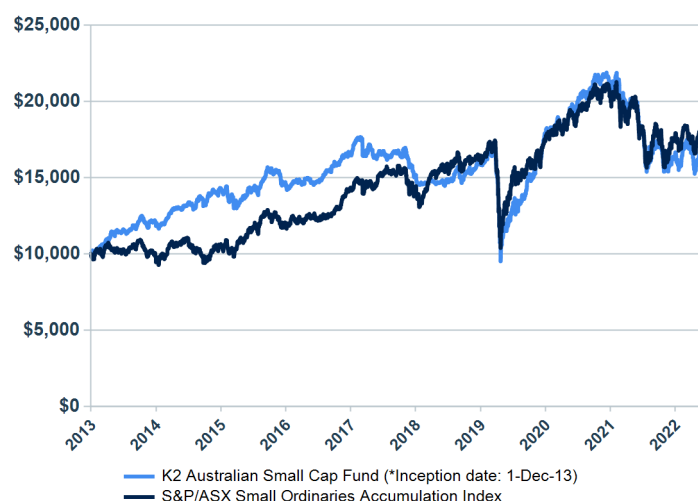


The K2 Australian Small Cap Fund is an Absolute Return equities fund. The fund is index-unaware, aiming to produce positive absolute returns over the long term with a capital preservation mindset. The Fund's mandate allows it to actively manage its net market exposure – utilising both cash and shorts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

	1 Month	Unit Price	Inception (%pa)
Performance (Net of Fees)	2.21%	2.29	5.35%

Refer below detailed performance data matrix

Growth of \$10,000



Top 5 Stock Holdings	Current	Monthly Move
Seven Group Holdings Ltd	6.7%	+0.0%
Summerset Group Holdings Ltd	6.6%	-0.7%
PeopleIn Ltd	6.4%	+0.2%
Corporate Travel Management	5.5%	+0.6%
Abacus Property Group	4.5%	+0.0%

Market Capitalisation Coverage	Current	Monthly Move
Large Caps >=AUD\$7.5b	6.7%	+0.0%
Mid Caps >=AUD\$2b < AUD\$7.5b	38.0%	-3.6%
Small Caps < AUD\$2b	49.4%	+4.0%

Month End Exposures	Current	Monthly Move
Consumer	23.2%	+1.0%
Energy	3.7%	-0.1%
Financials/Real Estate	22.1%	-3.4%
Health Care	9.9%	-0.9%
Industrials	20.6%	+3.1%
Materials	15.1%	+0.8%
Number of Positions	32	+2
Gross Equity Exposure	94.6%	+0.5%
Cash Weighting	5.4%	-0.5%
Net Equity Exposure	94.6%	+0.5%

Commentary

The K2 Australian Small Cap Fund returned 2.21% for the month.

The Australian economy is expected to deliver meagre economic advancement over the coming year; consensus estimates are that Australia's GDP growth will be just 1.7%. It is also likely that these estimates will continue to fade. The last time economists were so bearish about Australia's economic fortunes, excluding the COVID phase, was during the Global Financial Crisis. It is also worth noting that today Australia's 2 year bond yield is 3.16% whereas the official cash rate is 3.85%. The last time the inversion was so extreme was back in September 2012. Inflation expectations back in 2012 were moderate so unsurprisingly, the Reserve Bank of Australia (RBA) started easing monetary policy. Unfortunately, today we are not so lucky. The inflation rate for the year ahead is expected to be 4.7%. Hence, although economic conditions are sanguine, the RBA is unlikely to aggressively reduce interest rates. That said, we also believe that the RBA will not be in a rush to tighten monetary policy much further. The labour market is finally showing some early signs of rebalancing; the number job advertisements are now well below last years' level and this is typically a precursor to a lift in the unemployment rate. It would appear to us that a soft landing is still probable in Australia.

We are also starting to see some contraction in the PE dispersion for the companies in the Small Ordinaries Index. The PE of the cheapest top quartile company is currently 25x whereas during the COVID phase it averaged 28x and pre COVID the average was 19x. The PE of the cheapest top quartile company is currently 16 points higher than the most expensive bottom quartile company. During COVID, this dispersion averaged 17 points whereas pre-COVID the average had been 11 points. There is finally competition for growth so the dispersion in valuation metrics should continue to contract.

The best performing holdings for the Fund this month were Corporate Travel Management (CTD), Acrow Formwork and Construction (ACF) and PeopleIn (PPE). Detractors to performance were Summerset Group (SUM), Stanmore Resources (SMR) and Healthia (HLA). During the month the Fund acquired a new position in Johns Lyng Group (JLG). The median holding of the Fund has a market capitalisation of \$1.8 billion and, using expectations for the year ahead, has a PE of 12.6x, an ROE of 16.6% and a dividend yield of 3.8%.

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	-2.17	-4.84	2.21			4.44	12.07	7.77%	-0.20%	
													Incept.	63.30	78.48		
													Incept.	5.35%pa	6.34%pa	20.73%	-0.84%

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

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