

# K2 Australian Small Cap Fund (Hedge Fund)

## 31 May 2023

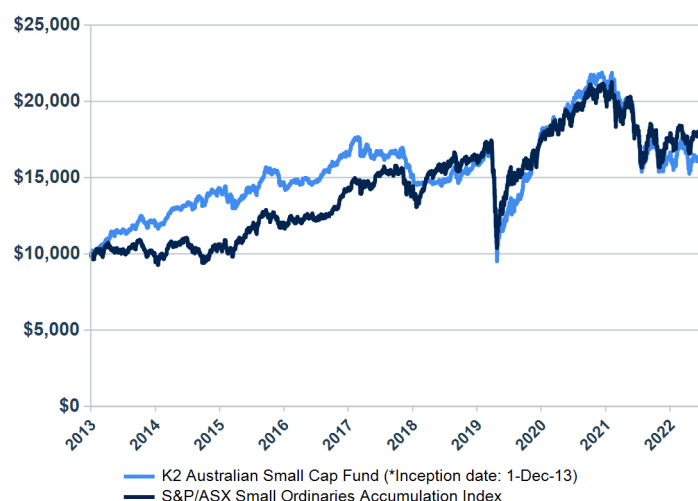


The K2 Australian Small Cap Fund is an Absolute Return equities fund. The fund is index-unaware, aiming to produce positive absolute returns over the long term with a capital preservation mindset. The Fund's mandate allows it to actively manage its net market exposure – utilising both cash and shorts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

	1 Month	Unit Price	Inception (%pa)
Performance (Net of Fees)	-3.10%	2.22	4.95%

Refer below detailed performance data matrix

### Growth of \$10,000



Top 5 Stock Holdings	Current	Monthly Move
Seven Group Holdings Ltd	6.9%	+0.2%
Summerset Group Holdings Ltd	6.6%	0.0%
Peoplein Ltd	6.2%	-0.2%
Corporate Travel Management	5.7%	+0.2%
Abacus Property Group	4.5%	+0.0%

Market Capitalisation Coverage	Current	Monthly Move
Large Caps >=AUD\$7.5b	6.9%	+0.2%
Mid Caps >=AUD\$2b < AUD\$7.5b	35.4%	-2.6%
Small Caps < AUD\$2b	49.2%	-0.2%

Month End Exposures	Current	Monthly Move
Consumer	15.9%	-7.3%
Energy	6.6%	+2.9%
Financials/Real Estate	19.5%	-2.5%
Health Care	10.0%	+0.1%
Industrials	22.3%	+1.6%
Materials	17.8%	+2.6%
Number of Positions	31	-1
Gross Equity Exposure	92.0%	-2.6%
Cash Weighting	8.0%	+2.6%
Net Equity Exposure	92.0%	-2.6%

### Commentary

The K2 Australian Small Cap Fund returned -3.10% for the month.

There are a few indicators that are sending mixed signals about the prospects for Australia. Firstly, global commodity prices have been edging lower. Secondly, China's economic activity appears to be losing momentum. Thirdly, Australia's inflation pulse is not receding as quickly as peers nations. And finally, Australia's key political figures have lost sight of the need to drive productivity and are instead tilting their narrative and actions towards growth in real wages. Higher real wages without productivity gains would no doubt cause the Reserve Bank of Australia (RBA) to become more hawkish at the worst possible time. More than 800,000 Australian mortgages are in the process of swinging from low fixed interest rates to substantially higher variable rates. The RBA has now tightened monetary policy twelve times this cycle. Any further upward movements will obviously have a bearing on household spending. We are also beginning to see some signs that businesses are becoming less courageous with hiring intentions and it seems inevitable that Australia's unemployment rate will rise into 2024. The key question is whether the softening in consumer spending will coincide with an eventual rebalancing of the labour market and allow the RBA to stay on the sidelines. It would appear to us that a soft landing is still possible in Australia.

During the month a number of US listed companies indicated that strong demand for generative artificial intelligence and language models was underpinning future revenue prospects. As a result, share prices of the 100 largest Nasdaq listed companies rose 8% for the month. Share prices for small cap companies in Australia's Information Technology (IT) sector also rose on average by 9% during the month. It is important to note that the largest 100 Nasdaq listed companies trade on 25x next years' expected earnings. In Australia, only half of the companies in the small cap IT sector are expected to generate profits next year and those stocks on average trade on 103x earnings.

The best performing holdings for the Fund this month were Summerset Group (SUM), NIB Holdings (NHF) and Patriot Battery Metals (PMT). Detractors to performance were Stanmore Resources (SMR), Peoplein (PPE) and Nick Scali (NCK). During the month the Fund acquired a new position in Beach Energy (BPT).

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	8.43	-2.17	-4.84	2.21	-3.10		1.21	8.42	7.64%	-0.21%
												Incept.	58.24	72.66		
												Incept.	4.95%pa	5.92%pa	20.72%	-0.84%

(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.

©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.