

K2 Australian Small Cap Fund (Hedge Fund)

31 August 2023

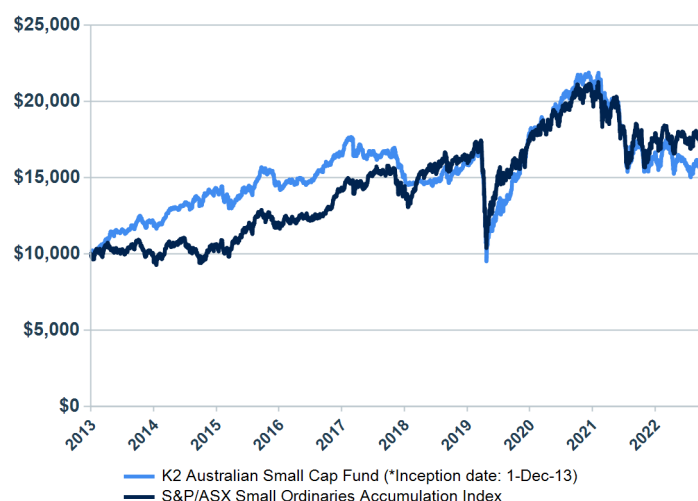


The K2 Australian Small Cap Fund is an Absolute Return equities fund. The fund is index-unaware, aiming to produce positive absolute returns over the long term with a capital preservation mindset. The Fund's mandate allows it to actively manage its net market exposure – utilising both cash and shorts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

	1 Month	Unit Price	Inception (%pa)
Performance (Net of Fees)	-2.13%	2.20	4.76%

Refer below detailed performance data matrix

Growth of \$10,000



Top 5 Stock Holdings	Current	Monthly Move
Seven Group Holdings Ltd	8.3%	+0.7%
Summerset Group Holdings Ltd	5.6%	+0.1%
Corporate Travel Management	5.1%	-0.5%
Peoplein Ltd	4.4%	-0.7%
NIB Holdings Ltd	4.2%	+0.1%

Market Capitalisation Coverage	Current	Monthly Move
Large Caps >=AUD\$7.5b	8.3%	+0.7%
Mid Caps >=AUD\$2b < AUD\$7.5b	43.9%	-7.5%
Small Caps < AUD\$2b	33.4%	+1.2%

Month End Exposures	Current	Monthly Move
Consumer	10.3%	-0.7%
Energy	5.2%	-1.9%
Financials/Real Estate	26.4%	+5.8%
Health Care	5.6%	-2.7%
Industrials	21.5%	+1.1%
Materials	17.2%	-7.0%
Number of Positions	29	-4
Gross Equity Exposure	86.1%	-5.5%
Cash Weighting	13.9%	+5.5%
Net Equity Exposure	86.1%	-5.5%

Commentary

The K2 Small Cap Fund returned -2.13% for the month.

In Australia, we are noticing that there is a growing divergence in management behaviour. One is actively investing for the future; management are taking an owner-like approach to operating the business and the customer is elevated above all else. The other is extracting from the future. Here, management act like short-term professional officers and the customer is an afterthought. Simply put, owner-like behaviour embraces a philosophy that compounds customer trust whereas the professional officer approach is to maximise short-term profits at the expense of the customer. Market share will cede from extractors-from-the-future to the investors-for-the-future. However, these market dynamics do take time to gain momentum. Meanwhile, short-termism is causing Australia's inflation pulse to beat too fast. The price of bread, dairy and other food related products have, on average, risen more than 10% over the past year. Gas and electricity prices are, on average, 15% higher than a year ago, and insurance and travel prices have also been rising rapidly. The companies that have set these unchallenged prices have enjoyed inflated margins, but, the threat of competition is looming. Our investment process favours management teams that act like founders and are investing for the future. Nib Group (NHF) is a company that is walking our talk.

NHF is a provider of health and medical insurance coverage to Australian and New Zealand residents as well as to international students and workers. It is the number three player in Australia's private health insurance (PHI) market with a share of just under 10%. NHF has consistently focussed on delivering an insurance product that is easy to understand, simple to use and is good value for money, and customers have responded. Over the past decade, NHF has added 225,000 PHI customers whilst improving its Net Promoter Score by 17 points to +34. This has all contributed to NHF growing profits by more than 10%pa over the past decade. Looking forward, we believe that NHF is well positioned to continue its growth trajectory. NHF's investment portfolio is now over \$1.2 billion but it has been a negligible contributor to earnings in recent times. Over the coming years we can see the portfolio adding meaningful amounts of investment income. In addition, since the COVID outbreak, NHF has invested over \$300 million into growth pursuits. Hence, we believe that NHF can continue to win market share, deliver improved profits and provide a growing stream of dividends.

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	-3.33	-2.16	8.45	7.44%	-0.20%
2023/24	5.12	-2.13											2.88	2.19	8.61%	0.00%
Incept.													57.39	76.49		
Incept.													4.76%pa	6.00%pa	19.60%	-0.76%

(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.