

K2 Australian Small Cap Fund (Hedge Fund)

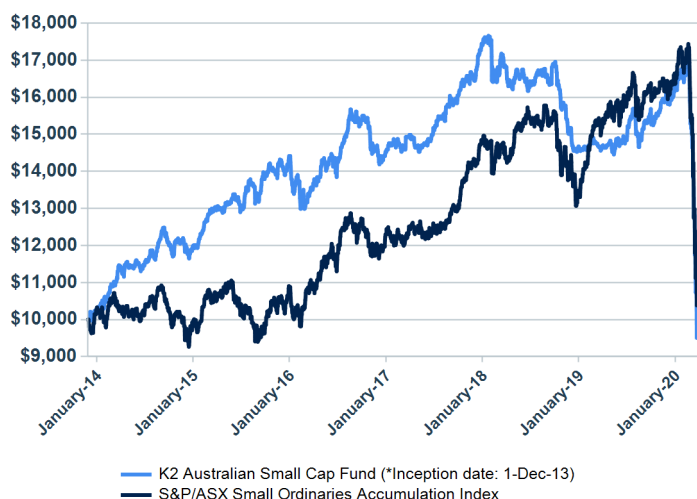
31 March 2020



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	3 Months	1 Year	3 Years (%pa)	5 Years (%pa)	Inception (%pa)	Inception Date
Performance (Net of Fees)	-28.0%	-32.1%	-25.0%	-9.8%	-3.3%	1.5%	1-Dec-2013
Average Net Exposure	72.8%	72.2%	67.2%	67.0%	75.9%	74.2%	

Growth of \$10,000



Commentary

The K2 Australian Small Cap Fund returned -28.0% for the month of March.

In 21 years of asset management K2 has never experienced a month as volatile as March 2020. During the month the average daily decline for the Small Ordinaries Index from intra-day high to intra-day low was 5.6%. For perspective the worst month during the GFC (Oct'08) saw an average intra-day decline of 4.1%.

The cause of increased volatility stemmed from the rapid expansion of the COVID-19 virus outbreak which coincided with a collapse in the oil price. The fear exhibited by market participants during March 2020 was more extreme than the period between September 2008 to March 2009 when the entire global payment system was on the brink of collapse. Today the world is in hibernation. The banking system has had a decade to prepare for these very conditions and fiscal support has been widespread.

The best performing holdings for the Fund were short positions in MyState (MYS) and Lovisa Holdings (LOV) which fell 22% and 28% respectively for the month. MYS is a Tasmanian based financial services company that had aggressively expanded in QLD, NSW and VIC. At 15x profits we viewed MYS as being way too expensive relative to the risk of pursuing growth in the future. The short position was closed out during the month. LOV is a quality retailer of women's fashion however at over 30x the stock was priced for perfection. The store network was always going to struggle during the COVID-19 expansion phase. The worst performers for the Fund were Elanor Investors (ENN), Money3 (MNY) and Moelis (MOE).

During the month a number of SmallCap managers sought liquidity at any price. Whether this ferocity in selling was to serve redemptions or simply switching into larger capitalised companies is yet to be seen. Either way a number of our holdings were caught in the cross-fire.

The Fund's net exposure for the month averaged 72.8%.

Top 5 Stock Holdings	Current	Monthly Move
Netwealth Group Ltd	7.8%	+2.2%
Summerset Group Holdings Ltd	5.6%	+0.0%
Perpetual Ltd	4.3%	+4.3%
Primewest Group Ltd	3.8%	-0.7%
Austal Ltd	3.7%	+0.5%

Month End Exposures	Current	Monthly Move
Consumer	7.6%	-5.5%
Financials	26.3%	-0.1%
Health Care	8.5%	-3.9%
Industrials	14.6%	-0.1%
Information Technology	1.8%	+0.2%
Materials	0.2%	-0.3%
Other	0.7%	+0.1%
Real Estate	10.2%	+2.6%
Number of Positions	33	-5
Gross Equity Exposure	69.9%	-9.5%
Cash Weighting	30.1%	+4.5%
Net Equity Exposure	69.9%	-4.5%

Fund Characteristics

FUM	AUD \$11m
Portfolio Managers	Campbell Neal, David Popenbeek and Josh Kitchen
Strategy	Australian and New Zealand Small Cap Equities
Objectives	To deliver consistent absolute returns over the investment cycle with a focus on capital protection during periods of market declines
Return Target	+10% pa over the long term
Number of Stocks	Up to 100
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

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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						2.9	3.2	3.1	4.4	0.4	1.2	-1.3	14.5	1.1	41.9%	0.0%	
2014/15	3.6	2.6	-0.7	0.5	-1.0	-0.4	2.6	4.5	1.4	-0.2	2.2	-2.1	13.5	0.4	22.5%	0.0%	
2015/16	5.7	-2.8	3.6	1.6	1.3	1.2	-4.0	-5.8	4.8	3.3	1.2	-0.4	9.6	14.4	12.5%	-0.2%	
2016/17	4.8	3.1	0.0	-1.5	-3.8	-0.4	1.6	-1.5	3.1	-2.3	0.8	2.8	6.5	7.0	15.9%	-0.5%	
2017/18	2.1	3.6	0.1	2.9	-0.2	5.9	-0.3	-3.4	0.0	-2.1	1.7	-1.9	8.3	24.2	21.3%	-2.0%	
2018/19	1.8	-1.0	2.1	-6.3	-4.2	-3.3	-0.4	1.5	-1.1	1.0	0.3	-0.1	-9.5	1.9	44.8%	-3.9%	
2019/20	5.2	-3.2	3.3	-0.1	2.7	1.0	2.6	-8.0	-28.0				-26.0	-23.9	29.3%	-1.7%	
													Incept	10.0	19.9		
													Incept	1.5%pa	2.9%pa	26.9%	-1.2%

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

DISCLAIMER: Returns are shown after fees (including performance fees) and expenses have been deducted and assume the reinvestment of income distributions. Please note that past performance is not a reliable indicator of future performance. The information contained in this document is produced by K2 Asset Management Ltd ("K2") in good faith, but 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. 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. A product disclosure statement for general information on any Fund referred to in this document can be obtained at www.k2am.com.au or by contacting K2. You should read the product disclosure statement and consider whether the product is appropriate for you before making a decision to acquire or continue to hold an interest in a Fund. Fees referred to in this document are inclusive of GST and RITC and do not include expense recoveries.