

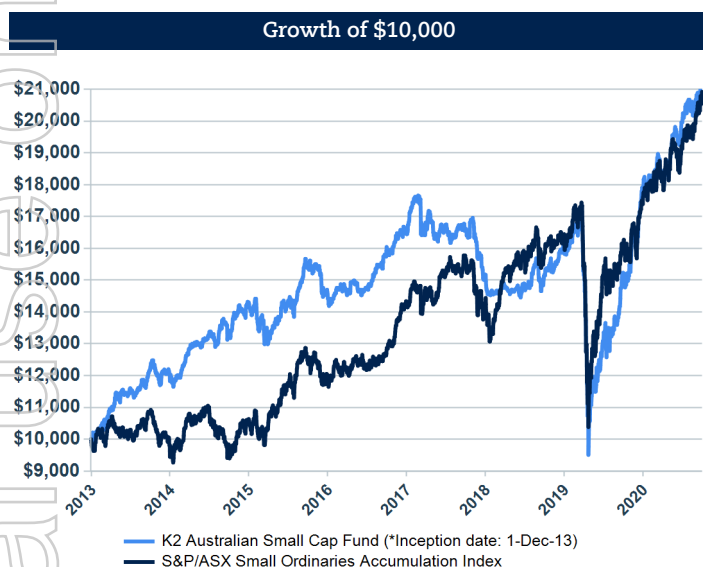
# K2 Australian Small Cap Fund (Hedge Fund)

## 31 August 2021



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	6 Months	1 Year	5 Years (%pa)	Inception (%pa)
Performance (Net of Fees)	4.88%	7.50%	18.55%	40.86%	6.88%	10.35%



Top 5 Stock Holdings	Current	Monthly Move
Summerset Group Holdings Ltd	7.5%	+0.6%
MA Financial Group Ltd	7.1%	+2.1%
Pendal Group Ltd	6.8%	-0.1%
Maas Group Holdings Ltd	4.7%	+0.2%
Seven Group Holdings Ltd	4.6%	-0.9%

Month End Exposures	Current	Monthly Move
Communication Services	1.6%	-0.2%
Consumer	23.5%	+1.5%
Energy	0.8%	-0.1%
Financials	30.2%	+3.3%
Health Care	10.6%	+0.5%
Industrials/Real Estate	23.7%	-5.3%
Information Technology	0.9%	+0.3%
Materials	2.3%	+0.2%
Number of Positions	41	-6
Gross Equity Exposure	93.6%	-0.5%
Cash Weighting	6.4%	-1.0%
Net Equity Exposure	93.6%	+1.0%

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### Commentary

The K2 Small Cap Fund returned a +4.88% for the month and has delivered exceptional returns over the past year to be up +40.86%. This is well ahead of benchmark (BM) by +11.4%. The fund has performed well, particularly since the severe March 2020 pandemic induced correction. The small and mid cap segments continue to offer leverage to the current stimulus led recovery. Pleasingly, the fund has delivered an above BM and consistent 10.35% p.a. return (after all fees) since inception without excess market volatility.

During the month analysts downgraded next years' EPS forecasts for 40% of the companies within the Small Ordinaries Index. Despite this, there was little move in the median EPS projection for the Small Ordinaries companies. It is likely that, given the lockdowns in NSW and Victoria, that September will also see an elevated number of downward earnings revisions. Given that 70% of NSW's adult population has received at least one vaccine dose, it seems increasingly likely that a reopening roadmap can be established. It is likely that more than 70% of NSW's adult population will be fully vaccinated well before Christmas and hence by December there should very few movement limitations. Unfortunately, Victoria's vaccination rate is more than 13% behind NSW and as a result, Australia's economic activity probably has near-term downside. Australia's GDP forecasts for the year ahead dropped by 0.3% during the month and a similar downgrade should be expected in September. Looking forward, we believe that Australia's economic growth in 2022 will rebound aggressively as households embrace long awaited movement liberations.

The best performing holdings for the Fund this month were MA Financial Group (MAF), Summerset Holdings (SUM) and Pendal (PDL) which rose 45%, 17% and 7% respectively. MA Financial delivered a strong 1H result; profits were 93% higher than last year which enabled the company to lift full year profit growth guidance to 20-30%. SUM delivered a 68% lift in its 1H underlying profit and upgraded the expected build rate by 10%. Elevated home prices in New Zealand will continue to assist Summerset in the future. PDL is well positioned to benefit from rising equity markets. JO Hambro's funds have performance fees payable at the end of December and a growing number of its funds have passed high water marks.

The Fund's net exposure for the month averaged 93.4%. The median holding for the Fund is attractively priced relative to the Small Ordinaries Index; using consensus forecasts for the year ahead the PE is 13% cheaper and the ROE is 37% stronger. The market capitalisation of the median holding for the Fund is \$805 million.

### Fund Characteristics

FUM	AUD \$15m
Portfolio Managers	Campbell Neal, David Poppenbeek 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

## 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	15.89%	-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	5.98%	-0.23%	
2021/22	-1.03	4.88											3.79	5.70	8.15%	-0.04%	
													Incept.	114.54	109.16		
													Incept.	10.35%pa	9.99%pa	22.19%	-0.92%

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

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