

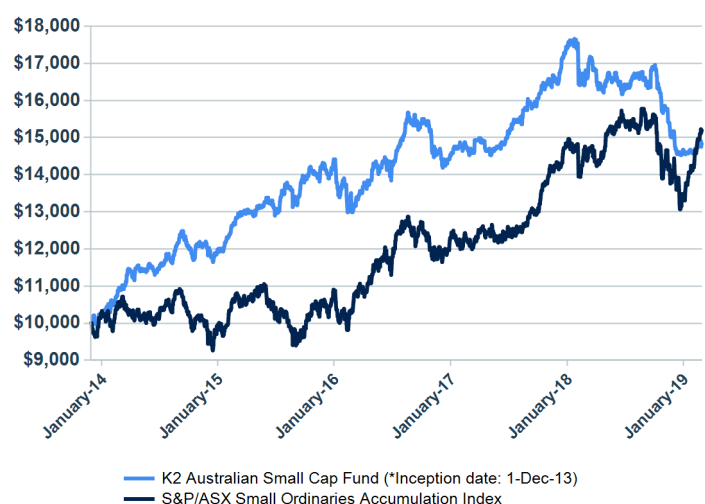
# K2 Australian Small Cap Fund (Hedge Fund)

## 28 February 2019



	1 Month	3 Months	1 Year	3 Years (%pa)	5 Years (%pa)	Inception (%pa)	Inception Date
Performance (Net of Fees)	1.5%	-2.2%	-11.7%	4.4%	6.3%	7.8%	1-Dec-2013
Average Net Exposure	37.9%	33.6%	65.1%	76.6%	76.8%	76.0%	

### Growth of \$10,000



Top 5 Stock Holdings	Current	Monthly Move
Elanor Investor Group	3.8%	0.0%
Cedar Woods Properties Ltd	3.3%	+0.2%
Metlifecare Ltd	3.0%	+0.0%
Healthia Ltd	2.9%	-0.4%
Aksesstoday Ltd	2.6%	0.0%

Month End Exposures	Current	Monthly Move
Consumer	7.2%	+1.3%
Financials	10.4%	-2.7%
Health Care	7.6%	+0.4%
Industrials	4.4%	-0.8%
Information Technology	2.2%	+1.4%
Materials	4.6%	+2.6%
Real Estate	3.9%	+0.8%
Utilities	0.8%	+0.1%
SHORTS	-1.8%	+2.8%
Number of Positions	31	+1
Gross Equity Exposure	43.0%	+0.3%
Cash Weighting	60.6%	-5.9%
Net Equity Exposure	39.4%	+5.9%

### Commentary

The K2 Australian Small Cap Fund returned 1.5% for the month of February.

The Fund remains defensively positioned with average net exposure for the month of 38%. We continue to avoid high PE, high momentum stocks, preferring to focus on companies trading at attractive valuations with strong balance sheets. At this point in the cycle, we are steadfastly vigilant about remaining patient and disciplined when deploying capital.

The ASX Small Ordinaries Accumulation Index continued its explosive start to 2019 returning 6.8% for the month, clawing back previous losses suffered over the second half of 2018. Panic selling at the end of 2018 turned into a powerful relief rally, creating a "Fear of Missing Out" mentality. Reporting season concluded with investors encouraged by results generally better than most feared. Companies that delivered solid growth, particularly in the tech sector, experienced significant PE re-ratings, despite already trading on extreme valuation premiums to the market.

A position in Webjet was added to the portfolio at the beginning of February. Best known as Australia's leading online travel agency, Webjet also offers a B2B service, WebBeds, that is less appreciated by the market. WebBeds is the number two player globally in the fulfilment of hotel room bookings for the travel industry, delivering EBITDA of over \$30m and the standout feature of last month's interim result. Webjet trades on 16.9X 2020 PE, in-line with the small industrials market multiple, while offering estimated 2020 EPS growth above 30%. Other positive contributors for the month included People Infrastructure which benefitted from strong new business growth and Seven Group following strong outlook commentary citing favourable industry dynamics. The largest detractor was Pioneer Credit, which declined 23% during the month after missing consensus profit expectations for the first time in five years and as a result the position was exited.

Fund Characteristics	
FUM	AUD \$24m
Portfolio Managers	Campbell Neal, David Poppenbeek, Josh Kitchen and Nicholas Leitl
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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