

# K2 Australian Small Cap Fund (Hedge Fund)

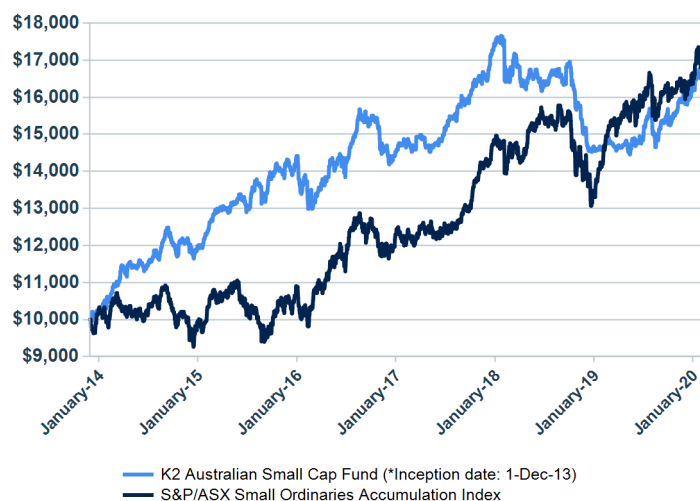
## 31 January 2020



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)	2.6%	6.4%	13.6%	4.0%	6.2%	8.6%	1-Dec-2013
Average Net Exposure	71.8%	73.8%	62.1%	68.2%	76.1%	74.2%	

### Growth of \$10,000



### Commentary

The K2 Australian Small Cap Fund returned 2.6% for January.

The Australian economy will need to contend with some challenging conditions during the first quarter of 2020. The dreadful bushfires throughout eastern Australia led to more than 5,400 lodged damage claims with insurers IAG and Suncorp and will undoubtedly result in subdued consumer activity in January. In addition, the coronavirus outbreak could lead to a meaningful drawdown in global activity. China has dramatically restricted tourism movements and most global airlines have suspended flights to the region. Estimates for global nominal GDP growth have already declined by 0.2% this month. Bond yields around the world subsequently dropped 0.3%.

The Fund's best performer was Primewest Property Group (PWG) which rose 15% for the month. The Fund acquired a position in PWG during the IPO last year. PWG is a specialist property fund manager with about \$4b AUM. The founders continue to hold 60% of PWG and the group is extremely well positioned for growth over the years ahead. During the month PWG announced that it was aiming to cornerstone a new listed commercial REIT. The transaction would be EPS accretive for PWG. The Fund's holdings in People Infrastructure and Paradigm Biopharmaceuticals also performed well rising 11% and 43% respectively. The worst performing holdings for the Fund were the consumer facing companies. Mosaic Brands (MOZ), HelloWorld and National Tyre and Wheel all declined on the expectation that retail sales would deteriorate over the months ahead. During the month MOZ announced that 20% of its store network were impacted by the bushfires and same store sales growth for the December half would subsequently be down 8% on last year.

The Fund's net exposure for the month averaged 71.8%; long and short exposure averaged 76.1% and 4.3% respectively. Equity prices continue to outperform earnings and as a result, the Small Ordinaries Index is trading on a PE of 19.5x next year's profit.

Top 5 Stock Holdings	Current	Monthly Move
Summerset Group Holdings Ltd	5.8%	0.0%
Netwealth Group Ltd	4.3%	+0.1%
Primewest Group Ltd	4.1%	+0.5%
Regis Healthcare Ltd	3.7%	+1.7%
People Infrastructure Ltd	3.6%	+0.3%

Month End Exposures	Current	Monthly Move
Consumer	9.3%	-0.7%
Financials	23.9%	-2.9%
Health Care	18.3%	+2.1%
Industrials	15.4%	+0.0%
Information Technology	1.6%	-0.1%
Materials	0.6%	-1.1%
Other	0.6%	+0.0%
Real Estate	3.4%	+0.1%
SHORTS	-6.3%	-4.7%
Number of Positions	36	-2
Gross Equity Exposure	79.4%	+1.7%
Cash Weighting	33.2%	+7.7%
Net Equity Exposure	66.8%	-7.7%

### Fund Characteristics

FUM	AUD \$16m
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

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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						11.8	7.4	29.7%	-1.7%	
													Incept	66.1	69.1		
													Incept	8.6%pa	8.9%pa	27.0%	-1.2%

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

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