

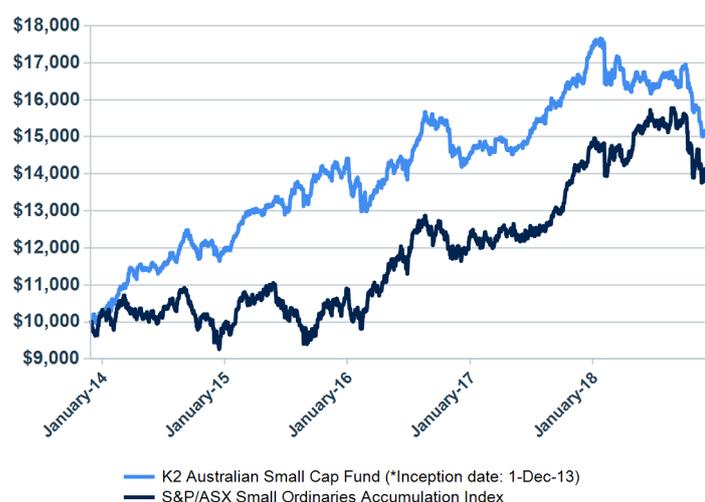
# K2 Australian Small Cap Fund (Hedge Fund)

## 30 November 2018



	1 Month	3 Months	1 Year	3 Years (%pa)	5 Years (%pa)	Inception (%pa)	Inception Date
Performance (Net of Fees)	-4.2%	-8.5%	-7.9%	2.1%	8.7%	8.7%	1-Dec-2013
Average Net Exposure	54.5%	64.7%	78.6%	81.2%	78.2%	78.1%	

### Growth of \$10,000



Top 5 Stock Holdings	Current	Monthly Move
Elanor Investor Group	4.2%	+0.3%
Healthia Ltd	3.5%	-0.1%
Cedar Woods Properties Ltd	3.2%	+0.1%
Axesstoday Ltd	3.1%	+0.1%
Metlifecare Ltd	2.7%	-2.1%

Month End Exposures	Current	Monthly Move
Consumer	7.9%	-2.5%
Financials	15.4%	-0.3%
Health Care	10.4%	-4.9%
Industrials	5.1%	-4.9%
Information Technology	1.5%	-1.1%
Materials	2.0%	-0.9%
Real Estate	3.8%	-0.2%
Utilities	1.3%	0.0%
SHORTS	-6.3%	-2.7%
Number of Positions	38	-5
Gross Equity Exposure	53.6%	-14.8%
Cash Weighting	59.0%	+20.2%
Net Equity Exposure	41.0%	-20.2%

### Commentary

The K2 Australian Small Cap Fund returned -4.2% for the month of November while the ASX Small Ordinaries Accumulation Index returned -0.4%.

The Small Cap Accumulation Index continued to fall in August and is now down 11% from its August peak. Oil related companies came under pressure as the price of Crude Oil (WTI) declined 22% for the month, its largest monthly loss in a decade and as a result the Fund's energy related holdings Sundance and MMA Offshore suffered. The Fund was also negatively impacted from reduced earnings expectations through stock specific holdings in National Tyre and Wheel and dentistry group Smiles Inclusive.

On the positive side, Think Childcare rallied over 30% after providing a detailed trading update citing significant improvement in performance metrics in the current quarter, solid earnings guidance and the announcement of five further acquisitions.

The Fund's net exposure currently stands at 41% after having been reduced from 61% at the end of October. The portfolio's more defensive positioning reflects the numerous short to medium term risks we see on the horizon.

Political uncertainty, foreshadowed by potential Labor Party policy changes, such as the removal of negative gearing, franking credit refunds and CGT discount reductions are extremely untimely given the current downward trajectory of domestic residential housing markets. Furthermore, a material tightening in credit conditions from the banks post the Royal Commission is creating a further downdraft. With high household debt levels, falling equity and house prices will significantly curb consumption expenditure in Australia. Smaller companies are more exposed to the investment cycle. The decision to raise meaningful cash levels and focus on capital preservation will cushion the portfolio from the challenges and risks that lie ahead.

### 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 stocks
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% p.a. of the amount by which the NAV exceeds the High Water Mark once the fund achieves its hurdle.

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