

# K2 Australian Small Cap Fund (Hedge Fund)

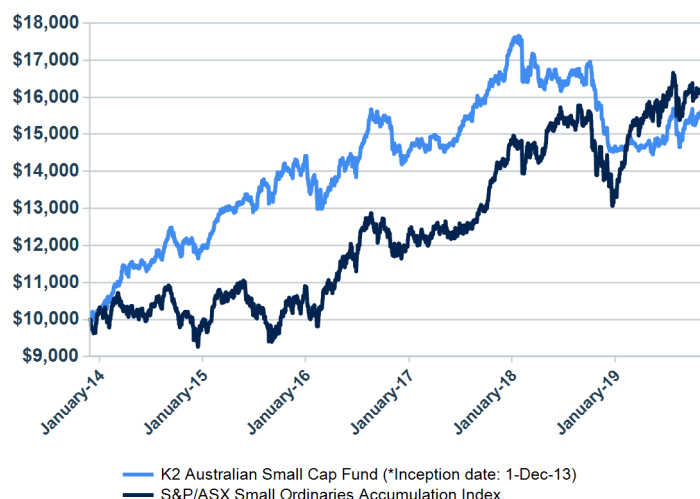
## 31 October 2019



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)	-0.1%	-0.1%	-1.4%	1.0%	5.1%	7.8%	1-Dec-2013
Average Net Exposure	68.2%	67.8%	53.4%	69.7%	76.4%	74.3%	

### Growth of \$10,000



### Commentary

The K2 Australian Small Cap Fund returned -0.1% for October.

There is a growing body of market commentators that are calling on the Reserve Bank of Australia (RBA) to implement Quantitative Easing. The argument is that, given that Australian banks have retained a portion of the recent reductions in the official cash rate, it follows that lending growth will remain subdued, the inflation target of 2-3% will be missed and the unemployment rate subsequently rises. We are not in this camp. We have confidence that Australia's economy will improve over the coming 12 months and we share RBA Governor Lowe's view that "it is extraordinarily unlikely that we will see negative interest rates in Australia."

The Fund's holdings Moelis Australia (MOE) and Medical Developments (MVP) performed well for the month rising 8% and 16% respectively. Moelis announced that it would be buying and cancelling 8 million MOE shares from its foundation shareholder Moelis and Company. The transaction is expected to be 5% accretive to MOE's EPS. MVP continued to excite investors with an announcement that it had entered into an exclusive Distribution and License Agreement with Daiichi Sankyo Company Limited (Daiichi Sankyo) for Pentrox in China, Thailand and Vietnam.

The Fund's holding in Flexigroup (FXL) was the largest detractor to performance. During the month the RBA indicated that it would be examining the policies of the new entrants into the Buy Now, Pay Later sector. FXL's share price declined 23% reversing much of the gains from the prior month.

The Fund's net exposure for the month averaged 68.2%; long and short exposure averaged 69.6% and 1.3% respectively. The Australian IPO pipeline is starting to evolve and we anticipate that we will be presented with some attractively priced investment opportunities over the months ahead.

Top 5 Stock Holdings	Current	Monthly Move
Moelis Australia Ltd	4.3%	+0.4%
Summerset Group Holdings Ltd	3.8%	+0.2%
Platinum Asset Management	3.6%	+0.0%
Perpetual Ltd	3.4%	0.0%
Seven Group Holdings Ltd	3.3%	-0.1%

Month End Exposures	Current	Monthly Move
Consumer	9.4%	-3.7%
Financials	27.8%	+2.3%
Health Care	11.2%	+0.5%
Industrials	16.8%	+0.6%
Information Technology	1.1%	+1.1%
Materials	1.6%	-1.5%
Other	0.6%	+0.6%
Real Estate	2.6%	+0.3%
SHORTS	-1.5%	-1.0%
Number of Positions	38	+2
Gross Equity Exposure	72.6%	+1.2%
Cash Weighting	30.3%	+0.7%
Net Equity Exposure	69.7%	-0.7%

### Fund Characteristics

FUM	AUD \$18m
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									5.1	2.6	32.4%	-1.0%	
													Incept	56.1	61.5		
													Incept	7.8%pa	8.4%pa	27.3%	-1.1%

(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](http://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.