

# K2 Australian Small Cap Fund (Hedge Fund)

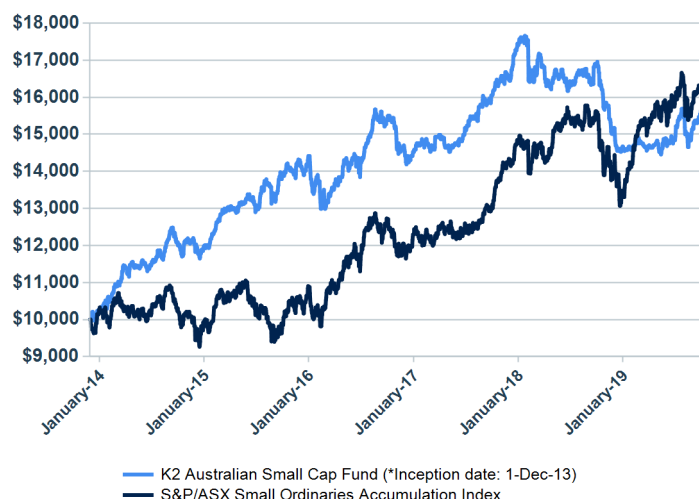
## 30 September 2019



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)	3.3%	5.2%	-7.5%	0.5%	5.3%	8.0%	1-Dec-2013
Average Net Exposure	67.9%	67.4%	53.5%	70.3%	76.5%	74.3%	

### Growth of \$10,000



### Commentary

The K2 Australian Small Cap Fund returned 3.3% for September.

The Governor of the Reserve Bank of Australia (RBA), Philip Lowe, gave a speech during the month titled "An Economic Update". Lowe stated that, despite expectations that economic growth is expected to pick up, further interest rate cuts may be required. He outlined Australia's strong fundamental position but exhibited frustration with businesses' lack of confidence to expand, invest, innovate and hire. The All Ordinaries Accumulation Index rose 2.6% for the month.

The Fund's holdings in Paradigm Biopharmaceuticals (PAR), Flexigroup (FXL) and Platinum Asset Management (PTM) rose 79%, 37% and 10% respectively for the month. PAR is focussed on the treatment of Osteoarthritis. During the month PAR announced that its first Investigational New Drug application was cleared by the US FDA for a special access program for 10 American retired NFL players. This was followed by the release of a supportive scientific journal article. FXL delivered a solid profit result during the month and its Buy Now Pay Later product "hummm" was also displaying good momentum.

The Fund's holding in Elanor Investor Group (ENN) was the largest detractor to performance. The Fund halved its position in ENN last month following very strong performance in August. We have not lost confidence in the company and will look to add to our position if further share price weakness is sustained.

The Fund's net exposure for the month averaged 67.9%. We are of the view that Australia's investment merits are improving and will start to attract global capital. Australia's national debt position is significantly lower than average, there is government stability and the currency is cheap. When compared to developed economic peers, Australia's expected GDP growth is stronger, company ROE is better and the dividend yield is higher.

Top 5 Stock Holdings	Current	Monthly Move
Moelis Australia Ltd	3.8%	+0.1%
Summerset Group Holdings Ltd	3.6%	+1.6%
Platinum Asset Management	3.6%	+2.1%
Perpetual Ltd	3.5%	+3.5%
Seven Group Holdings Ltd	3.4%	+0.1%

Month End Exposures	Current	Monthly Move
Consumer	13.1%	+3.2%
Financials	25.5%	+9.4%
Health Care	10.8%	-0.7%
Industrials	16.2%	+0.7%
Materials	3.0%	-0.7%
Real Estate	2.3%	-3.4%
SHORTS	-0.5%	-0.5%
Number of Positions	36	-1
Gross Equity Exposure	71.4%	+5.1%
Cash Weighting	29.6%	-4.1%
Net Equity Exposure	70.4%	+4.1%

### 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

**Andrew Kang**  
Business Development Manager  
03 9691 6105  
akang@k2am.com.au

## 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										5.2	3.1	32.6%	-0.9%	
													Incept	56.3	62.4		
													Incept	8.0%pa	8.7%pa	27.4%	-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.