

K2 Australian Small Cap Fund (Hedge Fund)

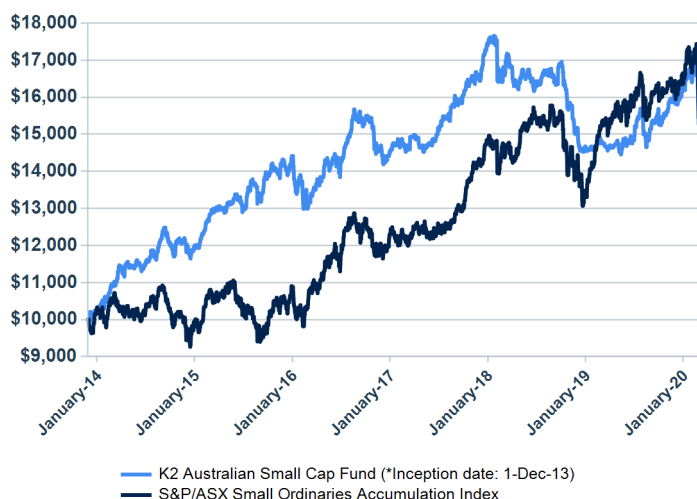
29 February 2020



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)	-8.0%	-4.7%	3.0%	1.7%	3.5%	7.0%	1-Dec-2013
Average Net Exposure	72.1%	73.8%	64.8%	67.6%	76.0%	74.2%	

Growth of \$10,000



Commentary

The K2 Australian Small Cap Fund returned -8.0% for February.

Over the past 3 months the outlook for the Australian economy has soured; GDP growth expectations have declined by more than 0.5% and it is likely that this trend will continue. Despite the recent 0.25% cut in interest rates by the Reserve Bank of Australia (RBA), market participants will remain sceptical about Australia's economic fortunes. It seems clear that some fiscal leadership is necessary; the government needs to embark on some long-range actions that will promote activity and confidence. Globally the outbreak of the coronavirus is causing a significant rise in market volatility. During the last 6 trading days of February the S&P500 shed 12%, the VIX rose to the highest level since the GFC and the oil price (WTI) declined 17%. Interestingly, during that same week, the rate of change in global coronavirus cases faded. We do not have any edge in understanding the evolution in the virus however we do have experience in managing through difficult climates. To us, equity share prices look attractive relative to future prospects and relative to competing asset classes.

The best performing holding for the Fund was Money3 Corp (MNY) which rose 14% for the month following a strong 1H'20 profit. MNY grew its profits by more than 60% in the first half of the year and further growth is expected in the future. The Fund also experienced positive contributions from short positions in IOOF Holdings (IHL), Genworth Mortgage Insurance (GMA) and Iress Ltd (IRE). These shorts were closed out during the month and were replaced by a new position. The worst performing holdings for the Fund were Regis Healthcare (REG), Summerset Group (SUM NZ) and Flexigroup (FXL) which all declined by more than 10%. REG and SUM are both aged-care operators and are therefore more susceptible to the coronavirus.

The Fund's net exposure for the month averaged 72.1%; long and short exposure averaged 75.1% and 3.0% respectively. We added exposure during the month and continue to look for attractively priced opportunities.

Top 5 Stock Holdings	Current	Monthly Move
Summerset Group Holdings Ltd	5.6%	-0.3%
Netwealth Group Ltd	5.6%	+1.3%
Primewest Group Ltd	4.5%	+0.4%
Money3 Corp Ltd	4.4%	+0.9%
Elanor Investor Group	3.8%	+0.8%

Month End Exposures	Current	Monthly Move
Consumer	13.0%	+3.7%
Financials	26.3%	+2.4%
Health Care	12.4%	-5.9%
Industrials	14.7%	-0.6%
Information Technology	1.6%	0.0%
Materials	0.5%	-0.1%
Other	0.6%	+0.0%
Real Estate	7.6%	+4.3%
SHORTS	-2.5%	+3.8%
Number of Positions	38	+2
Gross Equity Exposure	79.3%	-0.1%
Cash Weighting	25.7%	-7.5%
Net Equity Exposure	74.3%	+7.5%

Fund Characteristics

FUM	AUD \$15m
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	-8.0					2.8	-1.9	29.5%	-1.8%	
													Incept	52.8	54.4		
													Incept	7.0%pa	7.2%pa	26.9%	-1.2%

(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 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.