

K2 Australian Small Cap Fund (Hedge Fund)

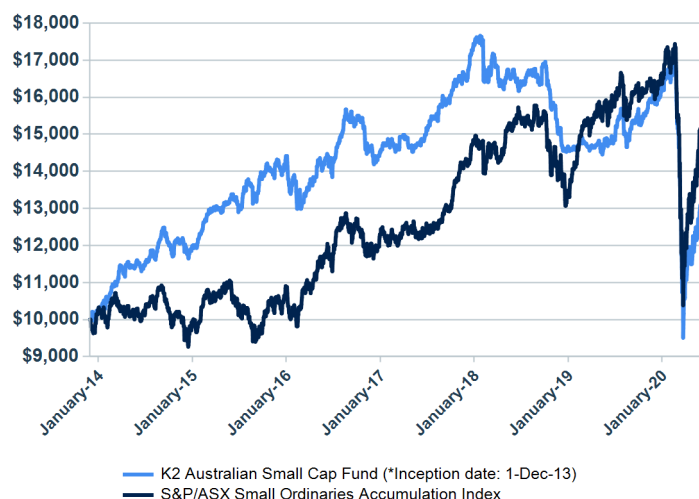
31 May 2020



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)	6.8%	-14.4%	-12.0%	-3.9%	-0.3%	4.2%	1-Dec-2013
Average Net Exposure	76.6%	73.9%	70.7%	67.9%	75.6%	74.2%	

Growth of \$10,000



Commentary

The K2 Australian Small Cap Fund returned 6.81% for the month of May.

Australia is gradually moving out of the COVID-19 hibernation phase. When compared to other developed economic peers Australia's daily Covid-19 case increases continue to be relatively benign. Australia has conducted 1.37million COVID-19 tests yet there are less than 500 active cases in the country. Given this, activity restrictions continue to be relaxed and economic Armageddon looks improbable. Expectations that Australia's unemployment rate will surpass 10% may be too pessimistic; many workers who have been laid off will not be actively looking for another job and therefore will not be counted as unemployed. In addition, on the 22nd of May, Australian Treasury announced that the number of employees likely to be covered under the JobKeeper program would be 3.5 million or 40% less than original estimates. As a result, the cost of the JobKeeper program would be \$60 billion below initial expectations.

The best performing holdings for the Fund were Data#3 (DTL), Primewest Group (PWG) and Aventus Group (AVN) which rose 36%, 18% and 15% respectively for the month. DTL's core business involves cloud, mobility, security, data and analytics and IT lifecycle management and has seen very little disruption from COVID-19. DTL's profits are skewed to the 4th quarter and the current environment could be beneficial. PWG announced during the month that it had acquired the WA headquarters of Seven West Media for \$75 million on a 15yr sale and leaseback. AVN's assets are well positioned for a resumption in consumer activity; the centres typically house retailers that offer less discretionary products with rents that are substantially lower than neighbourhood shopping centres. AVN continues to be attractively priced at 0.7x book value.

The Fund's net exposure for the month averaged 76.5% and has no short exposure. We have identified some attractively priced industrial companies so higher net exposure should be expected in the future.

Top 5 Stock Holdings	Current	Monthly Move
Netwealth Group Ltd	6.4%	-0.2%
Kina Securities Ltd	5.0%	+1.7%
People Infrastructure Ltd	4.9%	+2.1%
Money3 Corp Ltd	4.3%	+1.0%
Primewest Group Ltd	4.3%	+0.7%

Month End Exposures	Current	Monthly Move
Communication Services	3.5%	+2.2%
Consumer	6.8%	-2.0%
Financials	28.2%	+5.8%
Health Care	6.9%	-2.2%
Industrials	21.4%	+4.6%
Information Technology	5.6%	+3.7%
Materials	4.7%	+4.7%
Other	0.4%	-0.4%
Real Estate	13.3%	+1.8%
Number of Positions	41	+9
Gross Equity Exposure	90.7%	+18.2%
Cash Weighting	9.3%	-18.2%
Net Equity Exposure	90.7%	+18.2%

Fund Characteristics

FUM	AUD \$8m
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	-28.0	11.4	6.8		-12.0	-3.8	28.6%	-1.4%	
													Incept	30.8	51.5		
													Incept	4.2%pa	6.6%pa	26.8%	-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.