

K2 Australian Small Cap Fund (Hedge Fund)

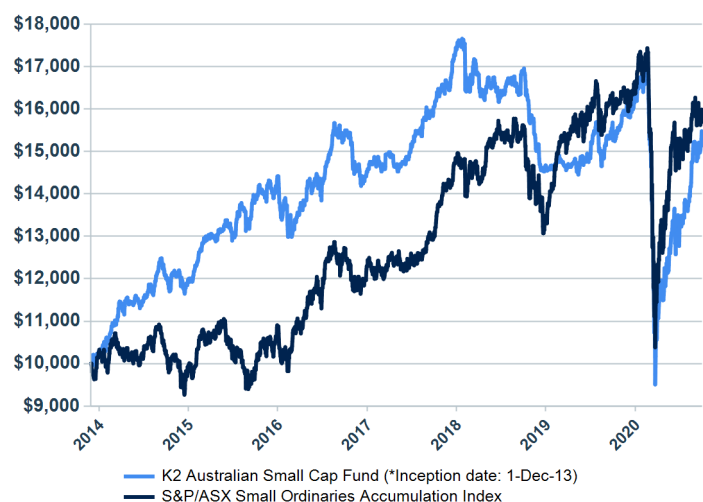
30 September 2020



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	Inception (%pa)	Inception Date
Performance (Net of Fees)	1.4%	6.6%	1-Dec-2013
Average Net Exposure	93.9%	75.1%	

Growth of \$10,000



Top 5 Stock Holdings	Current	Monthly Move
Summerset Group Holdings Ltd	7.2%	+0.3%
People Infrastructure Ltd	6.8%	+0.6%
Corporate Travel Management	6.6%	+0.4%
Pendal Group Ltd	6.4%	+4.7%
Kina Securities Ltd	5.5%	+0.8%

Month End Exposures	Current	Monthly Move
Consumer	9.7%	-1.1%
Financials	28.7%	+7.5%
Health Care	12.7%	-0.2%
Industrials	22.1%	+6.3%
Information Technology	3.2%	-3.4%
Materials	2.1%	-2.3%
Real Estate	17.8%	-0.6%
Number of Positions	39	0
Gross Equity Exposure	96.3%	+5.8%
Cash Weighting	3.7%	-5.8%
Net Equity Exposure	96.3%	+5.8%

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Commentary

The K2 Australian SmallCap Fund returned +1.40% for the month of September outperforming the benchmark by +4.2% for the month. The fund has performed strongly over the past six months and has returned +40% since 31 March, significantly outperforming the benchmark return of 31%. The combination of good stock selection and investing available excess cash early in the new cycle that began in March following the unprecedented coordinated policy stimulus, have contributed to the strong excess return of +9% vs benchmark for investors in the past 6 months.

At present economists expect the Australian economy to expand by just 1% over the year ahead which is materially slower than the 1.8% forecast growth for the Developed Economies. This primarily reflects the fact that Australia's elected leaders have opted to tackle the COVID-19 pandemic by limiting the movement of its citizens. From a top-down perspective it is easy to see why the consensus view is that restricted movements must equate to severely constrained economic activity. Obviously, Australia's large service industry is on the front line of this economic hardship however, as many listed retailers have demonstrated, a pivot towards online service provision can be beneficial. We also believe there is a possibility that households have been less impacted by working from home and that productivity may not be as dire as first thought. Throughout this COVID-19 pandemic Australian households and businesses will receive fiscal stimulus that is approaching 10% of last year's GDP. The Fund continues to be optimistically positioned.

The best performing holdings for the Fund were People Infrastructure (PPE), Corporate Travel (CTD) and Cedar Woods (CWP) which rose 10%, 11% and 8% respectively. PPE continues to perform well following its strong FY2020 result. We believe PPE is still attractively priced below 15x particularly given its conservative balance-sheet and 20% ROE delivery. CWP is national property developer with strong exposure to the improving WA market. We believe that residential housing construction will improve; government grants and low interest rates should stimulate more activity from first time home buyers. Kina Securities (KSL) was the main detractor to performance falling 18% after announcing a \$91 million capital raising to pursue growth opportunities in the PNG SME market.

The Fund's net exposure for the month averaged 93.9% and no short positions were held during the month. The median holding for the Fund has favourable characteristics; using consensus forecasts for the year ahead the PE is 14.9x, ROE is 13.0%, dividend yield is 3.6% and EPS growth rate is +15.2%. The market capitalisation of the median holding for the Fund is \$800 million.

Fund Characteristics

FUM	AUD \$9m
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

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	-0.2	-12.1	-5.7	26.6%	-1.3%	
2020/21	4.8	11.3	1.4										18.2	5.7	8.4%	-0.7%	
													Incept	54.4	57.0		
													Incept	6.6%pa	6.8%pa	24.2%	-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 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.