

# K2 Australian Small Cap Fund (Hedge Fund)

## 31 October 2023

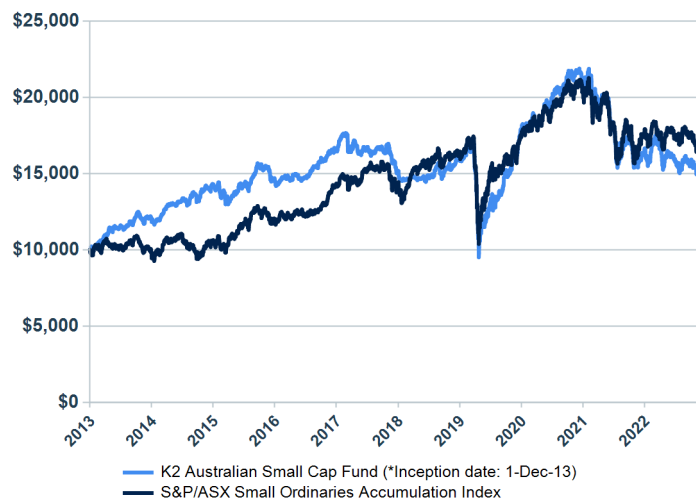


The K2 Australian Small Cap Fund is an Absolute Return equities fund. The fund is index-unaware, aiming to produce positive absolute returns over the long term with a capital preservation mindset. The Fund's mandate allows it to actively manage its net market exposure – utilising both cash and shorts to help protect clients' capital.

	1 Month	Unit Price	Inception (%pa)
Performance (Net of Fees)	-4.25%	2.07	4.06%

Refer below detailed performance data matrix

### Growth of \$10,000



Top 5 Stock Holdings	Current	Monthly Move
Seven Group Holdings Ltd	8.3%	-1.5%
Summerset Group Holdings Ltd	5.3%	-0.6%
Stanmore Resources Ltd	5.1%	-0.1%
Corporate Travel Management	4.8%	-0.1%
Region Re Ltd	4.6%	-0.4%

Market Capitalisation Coverage	Current	Monthly Move
Large Caps >=AUD\$7.5b	8.3%	-1.5%
Mid Caps >=AUD\$2b < AUD\$7.5b	51.3%	+4.1%
Small Caps < AUD\$2b	27.4%	-12.1%

Month End Exposures	Current	Monthly Move
Consumer	4.8%	-5.4%
Energy	5.3%	-1.7%
Financials/Real Estate	31.2%	-2.0%
Health Care	5.3%	-0.6%
Industrials	21.7%	-1.8%
Materials	19.0%	+2.0%
SHORTS	-0.6%	-0.6%
Number of Positions	30	-1
Gross Equity Exposure	87.9%	-8.9%
Cash Weighting	13.2%	+10.0%
Net Equity Exposure	86.8%	-10.0%

### Commentary

The K2 Small Cap Fund returned -4.25% for the month.

On the 7th of October, Hamas launched an attack against Israel. Israel promptly declared war on Palestinian Militants which could lead to a long and protracted conflict. Clearly geopolitical concerns are elevated, and economic consequences have become more complicated. A few weeks later, the new Governor of the Reserve Bank of Australia (RBA), Michele Bullock, gave her inaugural speech. She made it quite clear that the Board would not hesitate to raise the cash rate if there was a material upward revision to the inflation outlook. In addition, the Governor highlighted that the increased velocity of global shocks is causing several countries to reconsider the security of their supply chains. Australia's embracement of global trade may, therefore, expose some new congestion points within the supply chain. Hence, when coupled with a slightly stronger labour market, there is a chance that inflationary pressures may persist for longer than first thought. However, geopolitical risks aside, the inflation pulse should continue to moderate and market participants will increasingly need to consider the implications of a steepening yield curve. Hence, structural growth businesses like National Storage (NSR) are looking more prospective.

NSR listed on the ASX in 2013 as Australia's first independent, internally managed owner and operator of storage facilities. Back then, NSR operated or managed 62 storage centres throughout Australia that were, on average, occupied 71% of the time. Today, NSR's footprint is 231 centres which are 87% occupied. NSR's growth to date has predominantly been a function of acquisitions; storage properties worth about \$2 billion have been acquired over the past decade. Importantly, the passing yield of these properties tended to be in the 7-8% range and were accretive from day one. NSR has a conservative attitude to gearing so equity funding is normally the growth capital of choice; since listing NSR has raised equity at an average of 1.25x book value. Acquisition growth is still prospective, however, given that NSR is trading 20% below its book value, the cost of capital is becoming prohibitive. In the meantime, NSR has a significant development pipeline to harvest; the pipeline is equivalent to more than 60 additional properties. NSR's developments generally deliver a passing yield of more than 10% by the fourth year of operation and are extremely capital efficient. Hence, despite a challenging macro backdrop, NSR has a number of favourable tailwinds and is one of the few genuine growth REITs.

### Fund Characteristics

Portfolio Managers	Campbell Neal, David Poppenbeek and Bill Laister
Strategy	Australian and New Zealand Small Cap Equities
Objectives	To deliver consistent 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	25 to 50
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
Investment Horizon	5 Years
Style Bias	Growth At a Reasonable Price
Market Capitalisation Bias	>\$1billion

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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						2.86	3.19	3.06	4.44	0.36	1.15	-1.26	14.52	1.12	41.95%	0.00%
2014/15	3.64	2.57	-0.68	0.50	-1.04	-0.37	2.60	4.48	1.37	-0.22	2.23	-2.11	13.51	0.44	22.50%	0.00%
2015/16	5.71	-2.77	3.61	1.57	1.31	1.20	-3.95	-5.76	4.80	3.33	1.21	-0.40	9.58	14.40	12.48%	-0.20%
2016/17	4.80	3.05	0.00	-1.48	-3.76	-0.39	1.57	-1.54	3.14	-2.28	0.78	2.80	6.50	7.01	15.90%	-0.54%
2017/18	2.08	3.58	0.05	2.86	-0.23	5.91	-0.28	-3.36	0.04	-2.06	1.65	-1.87	8.29	24.25	21.35%	-2.04%
2018/19	1.82	-0.96	2.06	-6.33	-4.24	-3.25	-0.36	1.48	-1.08	1.04	0.31	-0.08	-9.53	1.92	44.79%	-3.92%
2019/20	5.21	-3.19	3.27	-0.11	2.71	1.01	2.56	-8.00	-28.03	11.37	6.81	-0.18	-12.11	-5.67	26.59%	-1.28%
2020/21	4.81	11.25	1.40	3.21	12.13	1.58	0.80	-1.11	2.75	6.18	1.08	3.57	58.25	33.23	5.99%	-0.23%
2021/22	-1.03	4.78	0.19	0.75	-2.02	2.31	-8.61	-1.08	2.50	-0.86	-9.08	-13.71	-24.36	-19.52	8.02%	-0.01%
2022/23	9.20	1.14	-9.78	2.28	3.94	-4.45	8.43	-2.17	-4.84	2.21	-3.10	-3.33	-2.16	8.45	7.44%	-0.20%
2023/24	5.12	-2.13	-1.49	-4.25									-2.97	-7.28	8.13%	-0.06%
												Incept.	48.44	60.14		
												Incept.	4.06%pa	4.86%pa	19.56%	-0.77%

(1) S&P/ASX Small Ordinaries Accumulation Index

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