

K2 Australian Small Cap Fund (Hedge Fund)

31 March 2025



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)	-2.86%	2.28	4.42%

Refer below detailed performance data matrix

Top 5 Stock Holdings	Current	Monthly Move
SGH Ltd	9.3%	-0.1%
Summerset Group Holdings Ltd	5.7%	-0.3%
National Storage REIT	5.2%	+0.3%
Bendigo And Adelaide Bank	5.1%	+1.1%
Lifestyle Communities Ltd	5.1%	+0.7%

Market Capitalisation Coverage	Current	Monthly Move
Large Caps>=AUD\$7.5b	12.3%	+0.0%
Mid Caps>=AUD\$2b<AUD\$7.5b	38.7%	+4.0%
Small Caps<AUD\$2b	47.1%	+3.1%

Month End Exposures	Current	Monthly Move
Communication Services	2.3%	0.0%
Consumer	13.1%	+3.7%
Energy	2.7%	+2.7%
Financials/Real Estate	40.4%	+3.0%
Health Care	8.8%	-0.4%
Industrials	19.2%	+0.1%
Information Technology	1.7%	+0.0%
Materials	10.3%	-1.6%
Number of Positions	33	+2
Gross Equity Exposure	98.5%	+7.4%
Cash Weighting	1.5%	-7.4%
Net Equity Exposure	98.5%	+7.4%

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

Commentary

The K2 Small Cap Fund returned -2.86% for the month.

The month of March was dominated by a belief that the world was heading into a prolonged trade war. The first catalyst was back in January when the US announced that an "America First Trade Policy" needed to be investigated. Then in February President Trump announced that the US would also examine non-reciprocal trade relationships. At the time of writing, President Trump had declared a National Emergency arising from large and persistent annual goods trade deficits. The release of the America First Trade Policy revealed that a duty of 10% would be applied to all imports from all trade partners. In addition, scaled reciprocal tariffs would be applied to certain trading partners. Immediately following the release of the policies, volatility measures spiked, recession fears escalated, and asset prices tumbled. However, seven days later, President Trump announced that the reciprocal tariffs would be paused for ninety days. Our initial view is that if the US can negotiate more favourable tariff terms with countries like Japan or South Korea, then recession fears should soften, and investor confidence would improve. Unfortunately, trade tensions with China are unlikely to be resolved anytime soon. Hence, a deal with other leading Asian trade partners could be an important offset.

The Funds' best performers for the month were resource holdings. Catalyst Metals (CYL) was up +41%, and Westgold Resources (WGX) and Boss Energy (BOE) both rose +14%. CYL is an Australian Gold producer with operations in WA. Its Plutonic mine has been restarted, and the target is to increase production from 80koz to 180-200koz by FY27. The company has consolidated the whole Plutonic gold belt which has given them control of high-grade undeveloped gold deposits, which can be processed through the underutilised mill. CYL's balance sheet is strong, with A\$175m in cash and no debt.

WGX is also an Australian gold producer based in WA. Its operations are in the Murchison and southern goldfields in WA. WGX acquired a listed Canadian peer, Karora Ltd, in 2024 for C\$1.4 billion. WGX now operates six underground mines and has five processing plants. WGX is expected to produce 340koz in FY25 with forecast production on track to increase to 400koz in FY26. The operations are still being fully integrated, hence, when the March quarter results are released, there could be some disappointment in production and costs. We sold out of the position prior to the end of the month.

BOE is Australia's newest uranium company. BOE owns the Honeymoon mine in South Australia and it also has a 30% stake in Alta Mesa, which is a project in South Texas. BOE uses the Ion Exchange Process at Honeymoon and the mine is now in production. The processing plant is on target to produce 850klb/yr of uranium in FY25. The target is to ramp up towards 3.3mlb/yr by FY27 as new producing wells are drilled and tapped into the leaching process. Uranium remains an integral part of energy generation as countries head towards the target of zero carbon by 2050.

MA Financial Group (MAF) was a detractor to performance. MAF declined 16% during the month as market participants feared that the mark-to-market impact from weak equity prices would reduce assets under management. However, over the longer term, we believe that MAF can sustain strong levels of growth. Near term, MAF's AGM next month should contain guidance for the level of profitability for the year ahead; we feel there is upside to current expectations of +30% growth.

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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	26.94%	-1.30%	
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	6.13%	-0.24%	
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	8.30%	-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	7.70%	-0.21%	
2023/24	5.12	-2.13	-1.49	-4.25	3.80	5.92	1.15	0.18	3.34	-3.49	-0.63	-1.88	5.13	9.35	7.51%	-0.11%	
2024/25	4.56	-2.59	3.53	0.39	0.43	-3.14	2.89	-1.34	-2.86				1.55	3.35	7.89%	-1.29%	
													Incept.	63.33	95.17		
													Incept.	4.42%pa	6.08%pa	18.62%	-0.82%

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

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