

K2 Australian Small Cap Fund (Hedge Fund)

31 August 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)	7.25%	2.51	5.13%

Refer below detailed performance data matrix

Top 5 Stock Holdings	Current	Monthly Move
Kina Securities Ltd	7.3%	+0.8%
Summerset Group Holdings Ltd	6.4%	-0.7%
National Storage REIT	6.1%	-0.3%
Bendigo And Adelaide Bank	5.2%	+0.2%
West African Resources Ltd	4.4%	+2.2%

Market Capitalisation Coverage	Current	Monthly Move
Large Caps>=AUD\$7.5b	16.2%	+1.0%
Mid Caps>=AUD\$2b<AUD\$7.5b	40.4%	+1.8%
Small Caps<AUD\$2b	40.3%	-0.1%

Month End Exposures	Current	Monthly Move
Communication Services	3.4%	-0.8%
Consumer	13.5%	+1.1%
Financials/Real Estate	37.0%	-1.4%
Health Care	6.4%	-0.7%
Industrials	7.9%	-5.8%
Information Technology	4.3%	+0.2%
Materials	24.6%	+10.1%
Number of Positions	31	+3
Gross Equity Exposure	97.2%	+2.7%
Cash Weighting	2.8%	-2.7%
Net Equity Exposure	97.2%	+2.7%

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 7.25% for the month.

The Reserve Bank of Australia (RBA) reduced the official cash rate by 0.25% during the month taking it to 3.60%. The decision from the Board was unanimous. The global economic outlook was assessed as uncertain whilst Australia was seen as subdued but showing signs of improvement. Monetary policy in Australia is still viewed as being restrictive so further rates cuts should be expected over the coming twelve months. So, what does this mean for local share prices? Broadly, we do not expect to experience another bout of zero-bound inflation anytime soon. Hence, it is likely that real bond yields will stay positive for some time, and this should be seen as a good thing. In regard to the equity market risk premium, our expectation that the QE driven convergence in yields has now played out and hence risk asset valuations will continue to normalise towards pre-GFC levels. As a result, future returns from equities will predominantly reflect earnings power as opposed to multiple expansion. The growth-at-any-price momentum strategy is starting to get long in the tooth.

The US\$ gold price continued to strengthen during the month. The push to hold gold has been aided by Central bank demand which has seen physical gold reach 22% of all foreign reserves. This is one of the largest increases in over two decades. Geopolitical uncertainties also remain, with no end in sight in the Russian/ Ukrainian hostilities as well as Middle East conflicts. Economic uncertainties, primarily due to the introduction of tariffs as well as softness in the US labour market, should lead to the US Federal Reserve (FED) making numerous rate cuts over the coming quarters. Lower US interest rates will be supportive for the US gold price. Ramelius Resources (RMS) and West African Resources (WAF) were amongst the Fund's best performance contributors for the month with each of them delivering 20%+ returns. They both had strong quarterlies as well as solid profit results. RMS and WAF should be generating strong free cash with the potential to grow production organically over next 24 months.

Another strong contributor to performance was A2 Milk (A2M) which delivered a +21% return. A2M delivered its full year results during the month, and there were a number of positive outcomes. Firstly, revenue for FY2025 was +13% higher than the prior year. Secondly, net profit after tax grew +21% for the year. Thirdly, A2M has over NZ\$1 billion in cash and term deposits which will, pending regulatory approval, enable a NZ\$300 million special dividend. We were also pleased to see ATM divest Mataura Valley Milk (MVM) and subsequently refocus on transforming the supply chain. ATM should continue to generate solid revenue growth over the years ahead. ATM's interest earning capacity will fade as cash is returned to shareholders, however, a higher return on employed capital for the group should more than offset this.

Bendigo Bank (BEN) and Judo Capital (JDO) were also solid contributors to performance and collectively added more than 100 basis points to performance. We believe that BEN and JDO have a once-in-a-generation opportunity to win share away from the four major banks. Three of the four majors have recently appointed new CEOs. These incoming CEO's have all spent their formative banking years' operating under different cultural settings. As a result, there will be a period of operational uncertainty. Interestingly, the major banks have opted to prioritise their proprietary distribution channels. This channel delivers superior margins however this may leave the door open for BEN and JDO to double down on the broker market. Differentiation is the key to survive. Setting goals is the gateway to strive. Execution is the pathway to thrive. We expect outsized returns from the BEN and JDO holdings over the next five years.

George Boubouras
Managing Director (MD)

Marcela Tirado
Head of Relationship Management

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	2.09	2.30	1.14	7.27	12.26	6.53%	-1.15%
2025/26	-2.72	7.25											4.34	11.47	0.50%	0.00%
Incept.													80.01	136.32		
Incept.													5.13%pa	7.59%pa	17.12%	-0.75%

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

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