

K2 Australian Small Cap Fund (Hedge Fund)

28 February 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)	-1.34%	2.35	4.73%

Refer below detailed performance data matrix

Top 5 Stock Holdings	Current	Monthly Move
SGH Ltd	9.4%	+0.8%
Summerset Group Holdings Ltd	6.0%	-0.3%
MA Financial Group Ltd	5.6%	+1.1%
National Storage REIT	4.9%	-0.1%
Kina Securities Ltd	4.7%	+0.3%

Market Capitalisation Coverage	Current	Monthly Move
Large Caps >=AUD\$7.5b	12.3%	-5.7%
Mid Caps >=AUD\$2b < AUD\$7.5b	34.8%	+4.4%
Small Caps < AUD\$2b	44.0%	-2.4%

Month End Exposures	Current	Monthly Move
Communication Services	2.3%	0.0%
Consumer	9.4%	+1.2%
Financials/Real Estate	37.5%	-5.4%
Health Care	9.2%	+1.3%
Industrials	19.1%	-2.8%
Information Technology	1.7%	-0.4%
Materials	12.0%	+4.7%
Number of Positions	31	-1
Gross Equity Exposure	91.0%	-3.7%
Cash Weighting	9.0%	+3.7%
Net Equity Exposure	91.0%	-3.7%

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 -1.34% for the month.

During the month, the Fund had a number of its companies report profit results for the six months to December. Pleasingly, the results were better than we expected. Let us start with the positives. There were two stand out outperformers; a2 Milk (A2M) and MA Financial Group (MAF). A2M delivered a strong first half result. Revenue grew 10% for the half with solid demand coming from Asia and the US. The Daigou channel continues to be problematic for the distribution of infant milk formula, however, new product launches with another manufacturing partner are partly offsetting the impact. Earnings for the half were 7.6% ahead of last years outcome and an inaugural dividend of 8.5c was declared. A2M lifted guidance for FY2025 and now expects revenue growth to exceed 10%. The company has over NZ\$1 billion of cash that will support some acquisitions and further capital returns. A2M's total return for the month was +35%. MAF's earnings for the six months to December were +40% above the prior corresponding period. Importantly, MAF's recent investments to build out a credit business are starting to pay off. Back in 2022, MAF acquired the mortgage broker Finsure. At the time, Finsure had 13% of the Australian mortgage broking market; today that share has risen to 17% and the managed loan book has grown to \$139 billion. MAF has also developed a non-bank lending business called MA Money. MA Money is now profitable and is scaling well; the loan book doubled in size in 2024 and currently stands \$2.1 billion. By 2026, MA Money should be generating a net profit north of \$15 million. In addition, MAF has established a good foothold in the US Private Credit market. MAF has recently received SEC approval for a specialty income fund which is now available on a large retail platform. MAF is well positioned to deliver strong earnings growth over the coming years. For the month, MAF delivered a total return of +24%.

The worst performer for the month was Lifestyle Communities (LIC). LIC develops affordable land lease communities for the over-55 cohort in Victoria. Despite tough property market conditions, LIC managed to deliver creditable results for the six months to December 2024; when compared with the corresponding period, the number of new home settlements rose by +10%, management fees earned were +4% higher, and the operating profit grew by +9%. However, forward indicators for near-term settlements were weak; the number of leads, appointments and gross sales were considerably lower than the prior half. We have seen this before; back in December 2018 and December 2020 sales plunged. However, on both occasions, settlements rebounded quickly, partly in response to interest rate cuts by the RBA. It is likely that a similar set-up is building this time around. What is different is that last year, a small group of residents at LIC's Wollert community managed to convince eighty other homeowners to join them in a claim lodgement at the Victorian Civil and Administrative Tribunal (VCAT). The claim accused LIC of immoral and unethical conduct, including misleading marketing and questionable fees when residents come to sell their home. LIC believe they can charge a deferred management fee given their particular form of contract. LIC have had this reviewed and feel extremely comfortable that VCAT will dismiss the claim. The VCAT hearing is scheduled for May. In the meantime, LIC has signalled that it will shrink the development pipeline and reduce the inventory of built homes. Despite this, LIC's stream of CPI-linked annuity income will continue to expand, operating cash flow from settlements should improve and earnings growth will follow.

George Boubouras
 Managing Director (MD)
 Research, Investments & Advisory
research@k2am.com.au

Marcela Tirado
 Head of Relationship Management
 & Corporate Services
invest@k2am.com.au

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					4.54	7.21	8.39%	-1.45%
												Incept.	68.14	102.47		
												Incept.	4.73%pa	6.47%pa	18.66%	-0.83%

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

DISCLAIMER: The K2 Australian Small Cap Fund is issued by K2 Asset Management Limited (K2) ABN 95 085 445 094, AFS Licence No 244393, a wholly owned subsidiary of K2 Asset Management Holdings Limited. The information contained in this document is produced in good faith and 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. The information provided in this document is current at the time of the preparation and K2 is not obliged to update the information. 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. Please note that past performance is not a reliable indicator of future performance. Any advice and information contained in this document is general only and has been prepared without taking into account any particular circumstances and needs of any party. Before acting on any advice or information in this document you should assess and seek advice on whether it is appropriate for your needs, financial situation, and investment objectives. Investment decisions should not be made upon the basis of its past performance or distribution rate, or any rating given by a ratings agency, since each of these can vary. In addition, ratings need to be understood in the context of the full report issued by the ratings agency themselves. A product disclosure statement or information memorandum for the funds referred to in this document can be obtained at www.k2am.com or by contacting K2. You should consider the product disclosure statement before making a decision to acquire an interest in the fund.

©2025 Morningstar, Inc. All Rights Reserved. The information contained herein: (1) is proprietary to Morningstar and/or its content providers; (2) may not be copied or distributed; and (3) is not warranted to be accurate, complete, or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information. Past performance is no guarantee of future results.