

K2 Australian Small Cap Fund (Hedge Fund)

30 April 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)	2.09%	2.33	4.58%

Refer below detailed performance data matrix

Top 5 Stock Holdings	Current	Monthly Move
SGH Ltd	9.5%	+0.2%
Summerset Group Holdings Ltd	5.9%	+0.2%
Bendigo And Adelaide Bank	5.3%	+0.2%
National Storage REIT	5.3%	+0.1%
Lifestyle Communities Ltd	4.6%	-0.4%

Market Capitalisation Coverage	Current	Monthly Move
Large Caps>=AUD\$7.5b	12.8%	+0.5%
Mid Caps>=AUD\$2b<AUD\$7.5b	37.7%	-1.1%
Small Caps<AUD\$2b	46.3%	-0.8%

Month End Exposures	Current	Monthly Move
Communication Services	2.7%	+0.4%
Consumer	12.1%	-1.0%
Energy	3.4%	+0.7%
Financials/Real Estate	39.8%	-0.6%
Health Care	7.8%	-1.0%
Industrials	19.2%	+0.0%
Information Technology	1.8%	+0.1%
Materials	10.2%	-0.1%
SHORTS	-2.3%	-2.3%
Number of Positions	31	-2
Gross Equity Exposure	99.4%	+0.9%
Cash Weighting	5.3%	+3.8%
Net Equity Exposure	94.7%	-3.8%

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 2.09% for the month.

April 2025 was one of those months that doesn't come along too often. The fallout from the US's 10% tariff on all countries and additional reciprocal tariffs was profound. Within days of the announcement, leading indicators of investor confidence moved sharply into risk-off territory. The Australian dollar plummeted to GFC and COVID levels. The VIX index pushed through 50 like back in October 2008 and March 2020. In addition, share prices of 85% of US listed companies traded below their 200-day moving average. This prompted a swift response from the US. President Trump stated that there would be a ninety-day temporary suspension on the higher rates of duty. This gave market participants hope that the tariff measures would not be as draconian as first thought. Most leading equity markets responded favourably to the announcement with an average gain of over +9%, with the Small Ordinaries Index registering a +7% improvement.

The Funds' three best performing sectors for the month were Energy, Consumer Discretionary, and Industrials. At the stock level, Boss Energy (BOE) was up +28%, Eagers Automotive (APE) rose +23% and Netweath Group (NWL) gained +10%. BOE is Australia's newest uranium company. During the month BOE announced that it was on track to deliver 850,000 lbs of uranium in FY2025. Production at its key Honeymoon mine is ramping up well and costs are trending below guidance. Free cash flow from the Honeymoon mine is now positive and further gains are expected in the future. BOE has a number of growth opportunities and is well placed to benefit from the underlying strength in its key uranium market. APE is the leading owner and operator of motor vehicle dealerships in Australia and New Zealand. It's market share of new vehicles sold is about 14% and it dominates the market for sales of new electric vehicles. APE is a highly durable business that earns a strong return on capital, yet trades at a discount to the Small Ordinaries Index.

NWL was one of the positions that we added to during the weakness early in the month. By the fifth day of April, NWL's share price had fallen 15% and was trading on as low a price, relative to expected earnings, as it did during the selloff in 2023. We added to the position on the expectation that NWL's upcoming business update would demonstrate that the mark-to-market weakness in asset prices during the March quarter would be neutralised by inflows. In fact, NWL's quarterly business update revealed that the market impact on FUA was significantly better than what we expected; despite equity markets declining by -4%, FUA for the quarter was +3% stronger than the prior quarter. NWL's share price subsequently rallied +27% from the lows of the month.

HMC Capital (HMC) is a new position for the Fund. Despite this, it was a detractor to performance for the month. HMC is an emerging manager of alternative assets. It concentrates on five asset classes: Real Estate, Private Equity, Energy Transition, Digital Infrastructure, and Private Credit. Market participants have been concerned that the mark-to-market impact from weak equity prices would reduce HMC's assets under management and revenue would be negatively impacted. So, when HMC downgraded earnings guidance for FY2025 by -12% in the lead-up to an Investor Day during the month, the share price sank. At its worst, HMC's share price was down -26%. We are encouraged that the price of HMC's listed AUM vehicles have, on average, recovered +6% from the lows of April and this may mitigate some of the mark-to-market concerns. At current prices, HMC is now trading at a significant discount to peer alternative asset managers.

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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	2.09			3.68	5.25	7.41%	-1.26%
Incept.													66.74	98.76		
Incept.													4.58%pa	6.20%pa	18.58%	-0.82%

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

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