

# K2 Australian Small Cap Fund (Hedge Fund)

## 31 May 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)	2.30%	2.38	4.75%

Refer below detailed performance data matrix

Top 5 Stock Holdings	Current	Monthly Move
SGH Ltd	9.8%	+0.2%
Summerset Group Holdings Ltd	6.2%	+0.3%
Bendigo And Adelaide Bank	5.9%	+0.6%
National Storage REIT	5.5%	+0.2%
MA Financial Group Ltd	5.1%	+0.5%

Market Capitalisation Coverage	Current	Monthly Move
Large Caps>=AUD\$7.5b	13.3%	+0.5%
Mid Caps>=AUD\$2b<AUD\$7.5b	34.1%	-3.6%
Small Caps<AUD\$2b	49.5%	+3.2%

Month End Exposures	Current	Monthly Move
Communication Services	3.0%	+0.3%
Consumer	11.3%	-0.8%
Energy	4.4%	+1.0%
Financials/Real Estate	38.3%	-1.5%
Health Care	9.4%	+1.6%
Industrials	13.9%	-5.3%
Information Technology	1.8%	+0.0%
Materials	15.0%	+4.8%
Number of Positions	28	-3
Gross Equity Exposure	97.1%	-2.3%
Cash Weighting	2.9%	-2.4%
Net Equity Exposure	97.1%	+2.4%

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 2.30% for the month.

Equity markets around the world responded favourably to the de-escalation in trade tensions. Tariffs between the US and China were temporarily reduced mid-month and this led to an improvement in most risk indicators. By month end, the VIX index had dropped below the reading prior to Liberation Day. Market participants seem to have come to terms with higher tariffs, and recession fears have subsequently dissipated. The flip side of US tariffs will be pro-investment tax legislation coupled with a more lenient regulatory backdrop. It's still early days but the earnings momentum for US companies doesn't appear to be fading yet. Accordingly, equities should continue to be a sought-after asset class.

During the month the best performing sectors for the Fund were Energy and Materials. Boss Energy (BOE) continued to perform strongly delivering a +25% return for the month. Catalyst Metals (CYL) and Ramelius Resources (RMS) were also good performers delivering +14% and +10% gains respectively for the month. The Fund's Financial exposure through holdings in MA Financial (MAF), Bendigo Bank (BEN) and Kina Securities (KSL) were also solid contributors to performance. Unfortunately, these gains were partially offset by the Fund's holding in Judo Capital (JDO).

During the month, JDO gave a trading update. Gross loans and advances at the end of the March quarter were \$11.7 billion, margins were improving, and the lending pipeline, after a few subdued months, was starting to improve. JDO stated that, although lending volumes were a little lower than originally thought, it continued to expect that pre-tax earnings for FY2025 would be +15%. JDO also stated that pre-tax earnings would grow by +50% in FY2026. For comparison, the leading bank in the sector, Commonwealth Bank (CBA), is expected to deliver pre-tax earnings growth of just +4% in both FY2025 and FY2026. Normally market participants would be buoyed by such a relatively optimistic outlook. However, JDO's share price declined nearly 20% on the day of the update. The Fund subsequently added to its position during this weakness. Our view is simply that JDO's earnings growth is six times faster than CBAs, yet it trades on a price-to-book that is 75% lower. JDO has a strong platform for growth, management are well aligned with shareholders, and operational leverage is attainable.

Generation Development Group (GDG) is a popular small cap holding that the Fund has avoided holding. GDG has performed strongly in recent times; over the past twelve months GDG's share price rose +155%, and last month alone, the price gained +35%. Despite this, we do not identify GDG as a highly durable company. Over the past year GDG has acquired two businesses (Lonsec and Evidentia) for \$517 million and concurrently raised \$592 million of equity. Incredibly, the market value of GDG's equity rose by \$1.8 billion. This implies that by simply switching the ownership of Lonsec and Evidentia to GDG, their aggregate value more than tripled. This seems ambitious to us. Lonsec and Evidentia are creditable providers of Managed Accounts and have grown rapidly over the past few years. However, these businesses still have to deliver appropriate levels of performance. Financial planners have increasingly embraced the tailor Managed Account solution. However, at some point we believe that the performance offering from Managed Account solutions will start bumping horns with large industry funds. In addition, we believe that product offerors like GDG deserve to trade at a discount to platform providers like Netwealth and Hub24. GDG's rapid growth has been amplified by catch-up buying from passive funds. At these prices, buyers of GDG shares are banking on a continuation of the greater fool theory.

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Managing Director (MD)

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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		6.06	11.31	7.21%	-1.25%
Incept.													70.58	110.22		
Incept.													4.75%pa	6.67%pa	18.56%	-0.82%

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

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