

K2 Australian Small Cap Fund (Hedge Fund)

31 December 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)	1.72%	2.59	5.25%

Refer below detailed performance data matrix

Top 5 Stock Holdings	Current	Monthly Move
Summerset Group Holdings Ltd	7.4%	0.0%
West African Resources Ltd	5.2%	+0.9%
Patriot Battery Metals I-Cdi	4.9%	+0.6%
Bellevue Gold Limited BI*Ms	4.8%	+1.2%
Develop Global Ltd	4.4%	+1.0%

Market Capitalisation Coverage	Current	Monthly Move
Large Caps>=AUD\$7.5b	13.1%	+0.7%
Mid Caps>=AUD\$2b<AUD\$7.5b	38.1%	+1.9%
Small Caps<AUD\$2b	46.5%	+0.2%

Month End Exposures	Current	Monthly Move
Communication Services	3.3%	-0.2%
Consumer	8.9%	-0.4%
Energy	2.8%	+0.5%
Financials/Real Estate	24.9%	+0.5%
Health Care	7.4%	0.0%
Industrials	15.5%	+0.7%
Information Technology	3.2%	-0.2%
Materials	32.1%	+4.5%
Number of Positions	31	-1
Gross Equity Exposure	98.1%	+2.8%
Cash Weighting	1.9%	-2.8%
Net Equity Exposure	98.1%	+2.8%

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 1.72% for the month of December 2025.

The Reserve Bank of Australia (RBA) continues to maintain a restrictive stance on monetary policy. The RBA is concerned that aggregate demand is exceeding the economy's supply potential. In addition, the RBA is worried that the labour market is tight and financial conditions may be looser than first thought. As a result, the RBA is now squarely of the view that near term interest rate cuts are unlikely. In fact, market pricing is now positioned for rate hikes in the first half of 2026. Over the past two months, Australia's 10-year bond yield has risen by 0.5% and is now more than 1% higher than the cash rate. Our concern is that the Australian economy is at risk of losing momentum. If consumer sentiment shifts in response to higher for longer interest rates, then consumption trends could quickly tilt towards preservation tendencies. Ultimately, discretionary expenditure is likely to fade and demand tension for residential property could taper. This outcome would have negative implications for GDP growth prospects in 2026. The Fund is subsequently underweight consumer facing sectors.

During the month, New Zealand's GDP for the September quarter was released and the outcome was better than expected; economic activity rose +1.1% qoq with all but two industries delivering positive outcomes. It appears that the New Zealand economy has finally past the trough in activity, and an accommodative setting of interest rates should ensure that growth continues over the coming quarters. By way of example, new home consents for the year to October were +6% stronger than the prior year. High density homes did most of the heavy lifting, but we would expect to see a solid lift in stand-alone housing construction in 2026. Consumer sentiment has been improving but is still well below pre-COVID readings. Hence, if inflation expectations remain anchored around current levels, then we would anticipate that mortgage rates can continue to trend lower and consumer sentiment would keep heading higher. The Fund's holdings in Summerset Group (SUM) and Winton Land (WIN) should experience strong profit uplifts in 2026 if a confident New Zealand consumer translates into an aspirational owner of residential property.

During the month new positions were established in NIB Holdings (NHF), Arena REIT (ARF) and Capstone Copper (CSC). NHF is provider of private health insurance and is attractively priced at 15x earnings. Earnings growth over the coming years should be solid given higher premium rates, recently established businesses moving into profitability, and improved returns from the \$1.4 billion investment portfolio. ARF is an owner of childcare facilities and offers a compelling dividend yield of 5%+ which is underpinned by attractive development prospects. CSC is a Canadian based company that owns and operates copper and silver mines in the US, Mexico and Chile. CSC's earnings are expected to expand significantly over the coming years as brownfield and greenfield developments come online.

The Fund's gold exposure was a significant contributor to performance during the month. The gold price has continued to rise and the US dollar has tended to weaken. As a result, the share prices of the Fund's holdings in Bellevue Gold (BGL), Black Cat Syndicate (BC8) and Ramelius Resources (RMS) were on average up +20% for the month. Development Global (DVP), Patriot Battery Metals (PMT), Maas Group (MGH) and Judo Capital (JDO) were also solid performance contributors.

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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	2.30	1.14	7.27	12.26	6.53%	-1.15%
2025/26	-2.72	7.25	2.24	-0.12	-0.69	1.72							7.62	17.39	2.45%	0.00%
Incept.													85.68	148.87		
Incept.													5.25%pa	7.84%pa	17.27%	-0.75%

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

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