

## K2 Asset Management

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# K2 Asian Fund Monthly Report - 31 January 2017

## Asia Pacific Market Review

The K2 Asian Absolute Return Fund returned 2.65% for the month of January while the MSCI AC Asia Pac Ex-Japan TR Net AUD Index returned 0.92%.

January saw strong performance across the board in Asia. Post the outflows from Asia following the Trump election win, a reversal ensued throughout January with Asian stocks playing catch-up or looking to regain the lost ground from previous months. January saw Chinese New Year and the Year of the Rooster begin, as we farewellled the year of the Monkey.

The major Asian markets were up strongly in January with the Hang Seng up 6.2% leading the pack. Hot on its heels were Singapore +5.8% and India +4.6%, while the markets of Malaysia +1.8%, Thailand +2.2%, Korea +2.0% and Taiwan +2.1% all posted positive returns. The only negative return was reserved for Australia, falling a modest 0.8%.

The AUD increased 5.0% in January to USD0.7570 providing a positive contribution to fund performance.

## Portfolio Insight: Galaxy Entertainment Group

Galaxy Entertainment is one of the six gaming license holders in Macau, operating the flagship property Galaxy Macau, as well as its secondary brands Broadway Macau and Star World Macau. Galaxy occupies approximately 20% of the Macau gaming market, second only to Sands China, but is the largest operator in terms of share of the VIP market. Galaxy accounts for nearly 25% of the Macau VIP market, having derived 53% of its revenue from high-rollers in 3Q16. After slumping in reaction to an extensive anti-corruption campaign in 2014, VIP gross gaming revenue started to rebound, rising 12.7% YoY, in 4Q16. Our November meetings with the company reveal a positive outlook for the junkets that bring in VIPs around the mainland's capital controls, noting both the return of former gamblers and an influx of newer VIP players. Galaxy is the only operator with a sizable undeveloped landbank in Cotai. The Macau casino market may just be at the beginning of a multi-year recovery and we see Galaxy as a preferred exposure to this market.

## Outlook

Unpredictability surrounding US Government policy from tax to immigration along with erratic tweeting is now the new normal making things very difficult for even the most sophisticated quant models and algorithms to forecast. As a result we expect volatility to increase dramatically. Market expectations remain elevated and we maintain our cautious but optimistic outlook for equities.

More specifically within Asia, valuations remain very attractive while corporate earnings remain robust. The Chinese Government is seemingly loosening some controls (especially around the corruption crackdown) leading to greater growth opportunities for certain sectors. The recent weakening in the Chinese Renminbi also takes some external pressures off export orientated companies.

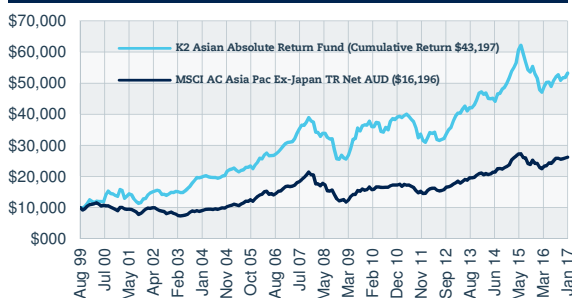
The Fund maintains a net equity market exposure of 87%. AUD hedging currently sits at 94% of the Fund as we believe that the AUD is likely to further strengthen.

## Top 5 Stock Contributions - January

<b>Largest</b>	Alibaba Group Holding Ltd, BHP Billiton Limited, Broadcom Ltd, HSBC Holdings PLC, RIO Tinto Ltd
<b>Smallest</b>	APN News & Media Limited, Beijing Capital Intl Airport, Cathay Pacific Airways, Macquarie Group Ltd, Retail Food Group Ltd

Performance to 31 January 2017 (net of fees)	
1 Month	2.65%
3 Months	4.47%
6 Months	4.75%
1 Year	11.18%
3 Years (pa)	4.64%
5 Years (pa)	10.37%
10 Years (pa)	5.57%
Since Inception (pa)	10.07%

## Growth of AUD \$10,000



Returns are based on NAV per unit plus distributions reinvested net of management fee and performance fee accruals. The method for calculating the NAV is set out in the Fund's PDS.

## Fund Details (Unaudited)

Exit Price Per Unit:	A\$164.26
Fund Size:	A\$50.5m
Start Date:	1-Sep-99

Top 5 Large Cap Holdings	Sector	%
BHP Billiton Limited	Basic Materials	7.5
RIO Tinto Ltd	Basic Materials	5.8
HSBC Holdings PLC	Financial	5.6
Macquarie Group Ltd	Financial	3.4
Petrochina Co Ltd	Energy	3.0

## Geographic Exposure %

	Long	Short	Net Equity
Australia	38.9	-	38.9
China	14.5	-	14.5
Hong Kong	22.6	-	22.6
Korea	1.0	-	1.0
New Zealand	4.8	-	4.8
United States	5.4	-	5.4
<b>Total Equity</b>	<b>87.2</b>	<b>-</b>	<b>87.2</b>
<b>Total Cash</b>			<b>12.8</b>
<b>Total Equity and Cash Exposure</b>			<b>100.0</b>
<b>Net AUD Exposure AFTER Hedging</b>			<b>93.7%</b>

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