

## K2 Asset Management

Level 32, 101 Collins Street Melbourne Victoria 3000 Australia  
 Telephone 61 3 9691 6111 Facsimile 61 3 9691 6170  
 Website k2am.com



# K2 Asian Fund Monthly Report - 31 July 2016

## Asia Pacific Market Review

The K2 Asian Absolute Return Fund returned 3.75% for the month of July while the MSCI AC Asia Pac Ex-Japan TR Net AUD Index returned 3.43%.

Global markets produced strong results for the month as the Brexit dust settled and investor confidence grew. The US S&P 500 closed July up +3.6%, a few points off its all-time highs, fuelled by a reporting season that has generally produced better than expected results. In contrast however, the US macro position softened with Q2 GDP showing a lukewarm 1.2%, significantly less than the 2.5% estimate. In Europe, the STOXX 600 also advanced +3.6%.

Asian markets outperformed their international peers led by Australia (+6.3%), Japan (+5.8%), Hong Kong (+5.3%), Taiwan (+4.3%), Korea (+3.0%) and mainland China (+1.7%).

Oil (WTI) retreated to \$41.60 from a 2016 high of \$51.50 in June. This is still significantly above the February 2016 low of \$26.05 when markets panicked about the impact on banks through their loans to the energy sector and the possibility of widespread defaults. The AUD increased +2.0% in July to 75.96 cents providing a slight headwind to fund performance.

## Portfolio Insight: Beijing Capital International Airport

In 2015 90 million passengers walked through Beijing airport, the world's sixth largest building by area. Trading on 17x P/E and approximately 10% free cash flow yield, we view the world's second busiest airport assets as undervalued and its growth potential underestimated. Our forecast growth of 12% CAGR over FY15-18E is driven by margin expansion, as international traffic growth is more profitable than domestic, along with changes to the business model for concession-based operations (including advertising, retailing and restaurants) that will drive faster expansion of the non-aeronautical businesses, improving profitability.

Key drivers for the acceleration in international traffic growth include: 1) Continued lift in airfield for international flights; 2) Ongoing relaxation of visa requirements for Chinese tourists; and 3) Prioritising the airport's resources on international flights by the gradual shifting of domestic routes to nearby airports. Other positive catalysts include potential tariff hikes driven by ongoing pricing reform for the utility/SOE sectors.

## Outlook

In the wake of Brexit, Asian equity markets became the beneficiary of global money flows as the region continues to offer better growth opportunities at lower valuations than the US and Europe. Exposure to the China theme through resource holdings BHP, Rio Tinto and South32 were the main contributors during the month, as Iron Ore increased +6.6% on China's reporting of better Industrial Production and GDP figures. Strategically the Fund maintains its China exposure through high quality names such as infrastructure company Beijing Capital International Airport and technology companies Tencent and Alibaba.

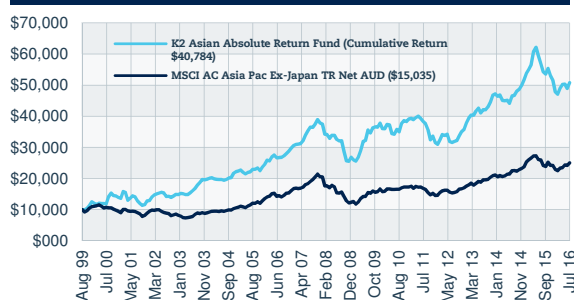
As Brexit-mania refreshingly subsided, global equities have enjoyed some breathing space, laying the foundations for further upside into the end of 2016. Weaker than expected US GDP data will prevent the Fed from raising rates in the near term keeping bond yields at record lows. Equities will remain the asset class of choice. The relative stability, favourable risk-reward profile and attractive relative valuations of the Asia Pacific region will continue to see it attract flows. We maintain a high net equity exposure, currently 90.0%.

## Top 5 Stock Contributions - July

<b>Largest</b>	BHP Billiton Limited, Fletcher Building Ltd, RIO Tinto Ltd, South32 Ltd, Vita Group Ltd
<b>Smallest</b>	Amorepacific Corp, CJ CGV Co Ltd, Hanmi Pharm Co Ltd, National Storage REIT, Samyang Holdings Corp

Performance to 31 July 2016 (net of fees)	
1 Month	3.75%
3 Months	1.13%
6 Months	6.14%
1 Year	-10.72%
3 Years (pa)	6.46%
5 Years (pa)	6.16%
10 Years (pa)	6.61%
Since Inception (pa)	10.08%

## 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\$156.81
Fund Size:	A\$54.8m
Start Date:	1-Sep-99

Top 5 Large Cap Holdings	Sector	%
BHP Billiton Limited	Basic Materials	6.0
RIO Tinto Ltd	Basic Materials	5.9
South32 Ltd	Basic Materials	3.5
Macquarie Group Ltd	Financial	2.9
Fletcher Building Ltd	Industrial	2.6

## Geographic Exposure %

	Long	Short	Net Equity
Australia	39.8	-	39.8
China	11.9	-	11.9
Hong Kong	12.2	-	12.2
Korea	15.3	-	15.3
New Zealand	4.0	-	4.0
Philippines	1.1	-	1.1
Taiwan	1.2	-	1.2
Thailand	0.7	-	0.7
United States	3.8	-	3.8
<b>Total Equity</b>	<b>90.0</b>	<b>-</b>	<b>90.0</b>
<b>Total Cash</b>			<b>10.0</b>
<b>Total Equity and Cash Exposure</b>			<b>100.0</b>
<b>Net AUD Exposure AFTER Hedging</b>			<b>46.1%</b>

This newsletter is prepared by K2 Asset Management Ltd ("K2") and is believed to be reliable. However K2 makes no representation or warranty as to its reliability and does not accept any responsibility or liability in relation to such information or for conclusions which the reader may draw from the newsletter. The information or opinions contained in this newsletter are of a general nature only and should not be construed to be a recommendation to buy or sell interests in the K2 Fund, securities, commodities, currencies or financial instruments referred to above. K2 is not licensed to give financial advice to retail clients and you should obtain and consider a PDS from K2 or our website before making a decision in relation to the K2 Funds. A cooling off period is available to some retail clients. The directors and staff of K2 hold units in the K2 Funds. Please note that past performance is not a reliable indicator of future performance.