

K2 Asset Management

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K2 Asian Fund Monthly Report - 30 November 2016

Asia Pacific Market Review

The K2 Asian Absolute Return Fund returned 1.59% for the month of November while the MSCI AC Asia Pac Ex-Japan TR Net AUD Index returned 0.70%.

November had a number of significant events, foremost the election of Donald Trump from which markets embraced the new agenda of fiscal reform and capital spending. Within China, the Singles' Day major retail event went off with a bang and proved that the Chinese consumer maintains its spending power. A December rate hike is now largely priced-in by markets given the better than expected third quarter US GDP growth of 2.9%. US 10-year Treasuries continue to sell-off with yields rising to 2.38%. Oil (WTI) closed the month higher at USD49.44, as the OPEC November meeting agreed to cut production in an attempt to drive oil prices higher. In China, PMI figures came in above expectation at 51.7 while CPI remained steady at 2.1%.

Global markets were mixed in November. The US S&P 500 returned 3.4%, while European markets led by the UK (-2.5%) and Spain (-5.0%) were weaker.

Asian markets produced mixed results for the month. On the positive side were Japan (+5.1%), mainland China (+4.8%), Australia (+2.3%) and Singapore (+3.2%), while Indonesia (-5.1%), Malaysia (-3.2%), New Zealand (-1.0%) and Hong Kong (-0.6%) closed the month in negative territory.

The AUD decreased -2.8% in November to USD0.7394 providing a positive contribution to fund performance.

Portfolio Insight: China Medical Systems

As a leading distributor of generic pharmaceutical drugs in China, China Medical Systems (CMS), based out of Shenzhen, has a long track record and significant logistical operations in place allowing for future growth. Its distribution channels are underpinned by a knowledgeable workforce of medical graduates allowing greater penetration within hospital, pharmacy and doctor networks. CMS's long track record further allows it to secure in-licensing of major prescription drugs from European or US pharmaceutical companies. CMS has increased efforts within its R&D and now offers a pipeline of future drugs that is currently not represented in the company's share-price while a number of newly acquired products underpin near term growth. With a forecast 3 year CAGR of 26% and trading at the bottom of its historical P/E range of 16x, the shares offer a compelling entry point.

Outlook

Asian markets enter the last month of the year generally buoyed by the US election result and a positive Singles' Day in China. With economic data in China supportive of continued growth and soft signals (including increased electricity demand) supporting this view, combined with the US economy poised to enter a period of fiscal expansion and infrastructure spending, markets have shaken off the tremors that 2016 produced.

Valuations within Asia remain low with Hong Kong trading on only 11.7x P/E and China on 13.7x. The lowly valuations are providing investment opportunities with names including Bank of China HK and China Medical Systems recent additions to the portfolio.

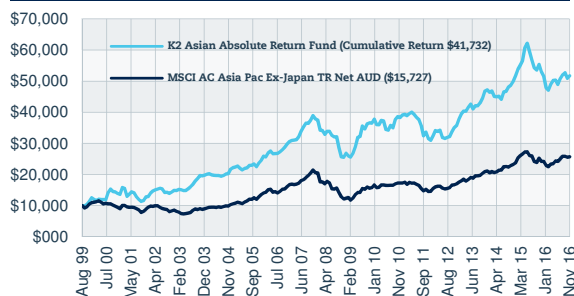
The Fund currently maintains a net equity exposure of approximately 87%, an increase from 78% at the end of October.

Top 5 Stock Contributions - November

| | |
|-----------------|--|
| Largest | BHP Billiton Limited, China Taiping Insurance Hold, Galaxy Entertainment Group, Macquarie Group Ltd, RIO Tinto Ltd |
| Smallest | Alibaba Group Holding Ltd, Beijing Capital Intl Airport, Retail Food Group Ltd, Tencent Holdings Ltd, Vita Group Ltd |

| Performance to 30 November 2016 (net of fees) | |
|---|--------|
| 1 Month | 1.59% |
| 3 Months | -0.60% |
| 6 Months | 2.77% |
| 1 Year | -2.50% |
| 3 Years (pa) | 3.42% |
| 5 Years (pa) | 10.40% |
| 10 Years (pa) | 5.68% |
| Since Inception (pa) | 10.00% |

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\$159.74 |
| Fund Size: | A\$50.5m |
| Start Date: | 1-Sep-99 |

| Top 5 Large Cap Holdings | Sector | % |
|--------------------------|-----------------|-----|
| BHP Billiton Limited | Basic Materials | 6.7 |
| RIO Tinto Ltd | Basic Materials | 5.0 |
| South32 Ltd | Basic Materials | 3.6 |
| Macquarie Group Ltd | Financial | 3.4 |
| Fletcher Building Ltd | Industrial | 2.9 |

Geographic Exposure %

| | Long | Short | Net Equity |
|---------------------------------------|-------------|----------|--------------|
| Australia | 37.4 | - | 37.4 |
| China | 19.2 | - | 19.2 |
| Hong Kong | 19.6 | - | 19.6 |
| Korea | 1.4 | - | 1.4 |
| New Zealand | 5.2 | - | 5.2 |
| United States | 4.5 | - | 4.5 |
| Total Equity | 87.3 | - | 87.3 |
| Total Cash | | | 12.7 |
| Total Equity and Cash Exposure | | | 100.0 |
| Net AUD Exposure AFTER Hedging | | | 47.8% |

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