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K2 Asian Fund
Monthly Report - 31 October 2016

Asia Pacific Market Review

The K2 Asian Absolute Return Fund returned -3.34% for the month of October while the MSCI AC Asia Pac Ex-Japan TR Net AUD Index returned -1.11%.

Global macro and political developments continue to dominate the investment landscape in Asia as we await key events surrounding monetary policy and the US election. What looked like a relatively comfortable Clinton victory is now too close to call after the FBI announced further investigation into Hillary's use of her personal email server. 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 a 5-year high of 1.84%. Oil (WTI) closed the month on its lows at USD46.86, a fall of -2.9% as the market waits nervously for an agreement on national quotas at OPEC's November formal meeting. In China, third quarter GDP growth of 6.7% hit the government's target, allaying fears of a sharper slow down.

Global markets were mixed in October. The US S&P 500 returned -1.2%, while European markets led by the Germany (+1.5%), France (+1.4%) and the UK (+0.8%) rallied. Asian markets produced mixed results for the month. On the positive side were Japan (+5.3%), mainland China (+3.2%) and Taiwan (+1.3%) while New Zealand (-5.5%), Australia (-2.2%), Korea (-1.7%) and Hong Kong (-1.6%) closed the month in negative territory.

The AUD decreased -0.7% in October to USD0.7608 providing a slight tailwind to Fund performance.

Portfolio Insight: Ayala Land

Ayala Land is the largest and most diversified real estate developer in the Philippines with interests spanning housing, retail, office and hotels. A core expertise has been its ability to 'master plan' business/CBD districts. Ayala has evolved from a high-end developer to now having an extensive retail and residential portfolio, complemented by a substantial land bank. A strong earnings growth trajectory of 15% CAGR during 2016-18 is expected as the company continues to build out its land bank. Demand for real estate in the Philippines remains strong, driven by favourable macroeconomic trends of rising incomes, confidence, low interest rates, demographics and a growing middle class. Ayala is well placed to capitalise on these positive industry dynamics given its strong brand equity, broad residential offerings, diversified real estate portfolio, financial strength and significant land bank of 8,948 ha. In addition to being the largest residential developer in the Philippines, Ayala has the broadest product offering in terms of both geographic and income segments, having recently increased their presence across the entire archipelago with over 19 growth centres.

Outlook

Asian markets will not be immune from the US election fallout. A Trump victory will almost certainly be viewed negatively by investors and we continue to closely monitor the situation. We maintain our view of a single US rate rise at the December FOMC meeting is still the most likely outcome. With a current probability based on bond futures of 78% (up from 59% 4-weeks ago), this should not surprise the market.

We remain encouraged by the consistently stable economic data flow from China, providing further evidence of Chinese policymakers' ability to navigate a soft landing. Strategically the Fund maintains its China exposure through high quality household names such as China Mobile, Tencent, Ping An Insurance, Galaxy Entertainment and Sunny Optical.

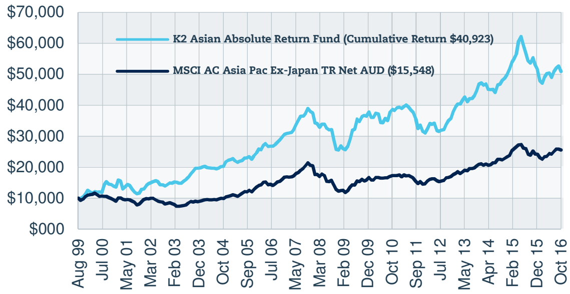
With relatively stable governments and attractive valuations, any sell-off related to US political uncertainty will present an interesting buying opportunity which we are ready to exploit. The Fund currently maintains a net equity exposure of approximately 80%.

Top 5 Stock Contributions - October

Largest	BHP Billiton Limited, Corporate Travel Management, RIO Tinto Ltd, South32 Ltd,
	Tongda Group Holdings Ltd
Smallest	Beijing Capital Intl Airport, China Overseas Land & Investments, Hugel Inc,
	Lee & Man Paper Manufacturing, Vita Group Ltd

Performance to 31 October 2016 (net of fees)	
1 Month	**-3.34%**
3 Months	**0.27%**
6 Months	**1.41%**
1 Year	**-8.05%**
3 Years (pa)	**4.54%**
5 Years (pa)	**8.66%**
10 Years (pa)	**5.87%**
Since Inception (pa)	**9.95%**

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$157.24**
Fund Size:	**A$51.1m**
Start Date:	**01-Sep-99**

Top 5 Large Cap Holdings	Sector	%
BHP Billiton Limited	Basic Materials	**6.7**
RIO Tinto Ltd	Basic Materials	**5.2**
South32 Ltd	Basic Materials	**4.2**
Macquarie Group Ltd	Financial	**3.2**
Alibaba Group Holding Ltd	Communication	**2.9**

Geographic Exposure %	Long	Short	Net Equity
Australia	40.4	-	**40.4**
China	9.4	-	**9.4**
Hong Kong	12.5	-	**12.5**
Korea	4.8	-	**4.8**
New Zealand	4.5	-	**4.5**
Philippines	1.0	-	**1.0**
United States	5.2	-	**5.2**
Total Equity	**77.8**	**-**	**77.8**
Total Cash			**22.2**
Total Equity and Cash Exposure			**100.0**
Net AUD Exposure AFTER Hedging			**49.9%**